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CANADA

REPORT ON THE WHITE PAPER ON TAX REFORM (Stage 1)



**The Standing Committee on
Finance and Economic Affairs**

November 1987



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REPORT ON THE WHITE PAPER
ON TAX REFORM
(Stage 1)

The Standing Committee on
Finance and Economic Affairs

Issue No. 125

Tuesday, June 23, 1987
Monday, August 24, 1987
Tuesday, September 15, 1987
Tuesday, October 6, 1987
Thursday, October 8, 1987
Tuesday, October 13, 1987
Wednesday, October 14, 1987
Thursday, October 15, 1987
Tuesday, October 20, 1987
Wednesday, October 21, 1987
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Wednesday, October 28, 1987
Thursday, October 29, 1987
Monday, November 2, 1987
Tuesday, November 3, 1987

Chairman: Don Blenkarn

Fascicule n° 125

Le mardi 23 juin 1987
Le lundi 24 août 1987
Le mardi 15 septembre 1987
Le mardi 6 octobre 1987
Le jeudi 8 octobre 1987
Le mardi 13 octobre 1987
Le mercredi 14 octobre 1987
Le jeudi 15 octobre 1987
Le mardi 20 octobre 1987
Le mercredi 21 octobre 1987
Le jeudi 22 octobre 1987
Le lundi 26 octobre 1987
Le mardi 27 octobre 1987
Le mercredi 28 octobre 1987
Le jeudi 29 octobre 1987
Le lundi 2 novembre 1987
Le mardi 3 novembre 1987

Président: Don Blenkarn

*Minutes of Proceedings and Evidence
of the Standing Committee on*

*Procès-verbaux et témoignages du
Comité permanent des*

Finance
and Economic Affairs

Finances
et des Affaires
Économiques

RESPECTING:

Pursuant to Standing Order 96(2), consideration of
the White Paper and other related documents on
Tax Reform

CONCERNANT:

En vertu de l'article 96(2) du Règlement, étude du
Livres blanc et autres documents connexes, ayant
trait à la réforme fiscale

INCLUDING:

The Eleventh Report to the House

Y COMPRIS

Le Onzième Rapport à la Chambre

Second Session of the
Thirty-Third Parliament 1986-87

Deuxième session de la
trente-troisième législature 1986-87

STANDING COMMITTEE ON FINANCE
AND ECONOMIC AFFAIRS

In accordance with the Order of Reference from
the House of Commons dated Friday, October 2,
1987:

Chairman: Don Blenkarn

Vice-Chairman: Robert E. J. Layton

Members

Bill Attewell
Suzanne Blais-Grenier
Michael Cassidy
Mary Collins
Simon de Jong
Murray Dorin
Raymond Garneau
W. Paul McCrossan
George Minaker
Aideen Nicholson
Norman Warner

In accordance with the Order of Reference from
the House of Commons dated Wednesday, October
15 1986:

Chairman: Don Blenkarn

Vice-Chairman: André Plourde

Members

Bill Attewell
Michael Cassidy
Simon de Jong
Murray Dorin
Raymond Garneau
Robert E. J. Layton
W. Paul McCrossan
George Minaker
Aideen Nicholson
Norman Warner
Geoff Wilson

(Quorum 7)

Marie Carrière
Clerk of the Committee

COMITÉ PERMANENT DES FINANCES ET
DES AFFAIRES ÉCONOMIQUES

Conformément à l'ordre de renvoi de la Chambre
des communes et date du lundi 2 octobre 1987:

Président: Don Blenkarn

Vice-président: Robert E.J. Layton

Membres

Bill Attewell
Suzanne Blais-Grenier
Michael Cassidy
Mary Collins
Simon de Jong
Murray Dorin
Raymond Garneau
W. Paul McCrossan
George Minaker
Aideen Nicholson
Norman Warner

Conformément à l'ordre de renvoi de la Chambre
des communes en date du mercredi 15 octobre
1986.

Président: Don Blenkarn

Vice-président: André Plourde

Membres

Bill Attewell
Michael Cassidy
Simon de Jong
Murray Dorin
Raymond Garneau
Robert E. J. Layton
W. Paul McCrossan
George Minaker
Aideen Nicholson
Norman Warner
Geoff Wilson

(Quorum 7)

Le greffier du Comité
Marie Carrière

ORDERS OF REFERENCE

Tuesday, June 30, 1987

ORDERED,— That the Standing Committee on Finance and Economic Affairs be empowered to travel

(1) to Vancouver, Edmonton, Regina and Winnipeg from September 20 to September 25, 1987;

(2) to Quebec City, Fredericton, Charlottetown, Halifax and St. John's (Newfoundland) from September 27 to 30, 1987;

(3) to Mont Ste-Marie (Quebec) on October 13, 14 and 15, 1987 for the purpose of drafting its report to the House; and

that the necessary staff do accompany the Committee.

ATTEST

Michael B. Kirby
Clerk of the House of Commons

The Standing Committee on Finance and Economic Affairs

has the honour to present its

ELEVENTH REPORT

In accordance with its mandate under Standing Order 96(2), your Committee has examined the White Paper and other related documents on Tax Reform (Stage 1 of the proposals) tabled in the House of Commons on Thursday, June 18, 1987.

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Acknowledgement

This Report would be remiss if it did not acknowledge the hard work, the effort and the organization of the Committee's deliberation by C. David Weyman, F.C.A., who has been working with the Committee as a resource person since the Committee first contemplated becoming involved in tax reform in November of 1986.

In order to coordinate the Committee's work in dealing with the hundreds of submissions and the very complex issues that came before the Committee with reference to the White Paper, Mr. Weyman brought to the Committee as consultants R. Geoffrey Fisher, C.A., Senior Manager-Tax of the firm Peat, Marwick in Ottawa; Barbara J. Mackay, C.A., tax specialist with the firm Clarkson, Gordon in London, Ontario; France Castonguay, tax specialist with the accounting firm of Samson, Bélair in Montreal; Edwin G. Kroft, tax specialist with the law firm of Ladner, Downs in Vancouver.

The particular expertise brought to the Committee by these people substantially assisted in getting at the difficult issues raised in the White Paper. In addition, the Committee was fortunate to have on its staff Dr. H. Bert Waslander as its general Research Director, who was accompanied by Dr. Terrence J. Thomas, from the Library of Parliament.

In addition, the committee was able to secure the services of Sean Aylward, an Ontario lawyer with some tax expertise, Kirk Falconer, from the New Democratic Party, and Mr. Anthony Knill from the Liberal Party.

Without the very extensive background work done by the staff, it would not have been possible to put this Report together.

In that respect it is exceptionally important to review the extensive business experience and advice that was available to the Committee from the Members of Parliament who form the Committee and who worked extensively on the Report. In that respect it is important to note the efforts of Raymond Garneau, Member of Parliament for Laval-des-Rapides, former Minister of Finance for the Province of Quebec and former Chief Executive Officer of the Montreal City and District Savings Bank; and Aideen Nicholson, Member of Parliament for Trinity, a Member with a great deal of experience and presently the Chairperson of the House of Commons Public Accounts Committee.

The Committee was also privileged to be able to have the extensive experience of Michael Cassidy, Member of Parliament for Ottawa Centre and the Finance Critic for

the New Democratic Party. Mr. Cassidy was able to bring his particular financial experience as a journalist together with his experience as the former leader of the New Democratic Party in Ontario. Also from the New Democratic Party, a long time member of the Committee from the riding of Regina, East, Simon de Jong, who has a great deal of small business experience.

From the Progressive Conservative Party, the Committee was privileged to have the experience of Paul McCrossan, Member of Parliament for York Scarborough. Prior to his election he was a leading actuary and was particularly valuable to the Committee in dealing with problems in connection with financial intermediaries and other matters of like nature in the Report.

William Attewell, Member of Parliament for Don Valley East and former Vice-President, Corporate Planning of the Guaranty Trust Company, and a long time member of the Committee, was of considerable help. In addition, the Committee had the help of Norman Warner, Member of Parliament for Stormont Dundas, who has extensive experience in the general real estate and insurance business.

From Western Canada the Committee had the assistance of Murray Dorin, Member of Parliament for Edmonton West and a chartered accountant with extensive business experience, and Geoff Wilson, Member of Parliament for Swift Current-Maple Creek, with extensive legal experience. Mr. Wilson is Chairman of the Standing Committee on Agriculture. The Committee also had the assistance of George Minaker, Member of Parliament for Winnipeg-St. James. Mr. Minaker is a former Minister in the Government of Manitoba.

The Committee's Vice-Chairman is the Honourable Robert E.J. Layton, Member of Parliament for Lachine and the former Minister of State (Mines). He had extensive experience in the engineering field before being elected to Parliament.

We must further acknowledge that without the dedication and organization capacity of Marie Carrière, the Clerk of the Committee, who together with a superb support staff comprised of Diane Lefebvre, Administrative Assistant, Lise Tierney, Secretary, Francine Brewin, Clerk/Receptionist, Margot Maguire from Humphreys Public Affairs, media interviews, Nancy Clairmont and Susan Lafontaine, Micom operators, Beth Ediger, English Editor, Georges Royer, French Editor, and Claude Beaudry, Messenger, the extensive work in connection with putting the Report together could not have been possible.

The work of the Committee involved rather difficult arrangements for witnesses and very comprehensive arrangements needed for the trips away from Ottawa involving transportation, accomMODation, translation of briefs and documents, distribution of material and arrangements for witnesses coming to Ottawa and a whole host of other matters including preparation of briefing books for Members and making sure that Members were fully familiar with the issues being brought to them.

As Chairman of the Committee, I must say how appreciative I am of the work done by the staff and by my colleagues in Parliament in such a dedicated fashion and working the many long hours that were required to put this Report together.

Don Blenkarn, M.P.
Mississauga South
Chairman

List of Recommendations

Chapter 2: Background to Tax Reform and to this Report

1. That the Canadian income tax system be reformed along the lines proposed in the White Paper on Tax Reform, and in particular that the proposed base-broadening measures, conversion to credits and rate structures for the corporate and personal income tax be implemented, and that the other measures under Stage One of tax reform be adopted, subject to the recommendations that follow.
2. That the tax system be amended less frequently following reform, and that it be kept as stable and simple as possible.

Chapter 4: Personal Income Tax Reform

Child Benefits

3. That for the third and each subsequent child under age 19 a tax payer claims as a dependant:
 - a) the taxpayer be given an additional exemption credit of \$65;
 - b) this additional credit be made refundable in the form of a top-up of the federal refundable child tax credit of up to \$100 per child. This top-up is reduced by the portion of the additional exemption credit that is used to reduce federal tax as payable to zero;
 - c) that the government negotiate with the province of Quebec to provide an equivalent tax reduction to taxpayers with eligible children in that province.
4. That a parent be permitted to elect to report a child of 19 to 21 years of age as a dependant and claim a dependant tax credit of \$130 or, if he or she otherwise qualifies, the equivalent-to-married credit, and that by this election the child would lose the right to transfer to a supporting relative the unused portion of the tuition and education credit he or she may claim.
5. That the turning point net income level for the refundable child tax credit be increased by \$1,500 from \$24,000 to \$25,500.
6. That the parent with the higher income be required to include family allowances in income.

7. That a spouse or dependant can report up to \$1,000 in net income before the full value of the tax credit available to the supporting taxpayer begins to be reduced.

Medical Expenses and the Disabled

8. That as a matter of urgency the federal government, in conjunction with the other levels of government, examine the tax and welfare systems to ensure that they do not act as a deterrent or barrier to the disabled who are or who wish to become members of the workforce.

CPP/QPP and UI Contributions

9. That self-employed individuals receive a 17-per-cent non-refundable federal tax credit for their total CPP/QPP contributions in lieu of a partial deduction and a partial credit.

Education Tax Credits

10. That the proposed federal education tax credit should be made available to all full-time students enrolled in designated institutions for post-secondary education.

Capital Gains Inclusion Rate

11. That, as an interim measure only, the proportion of a capital gain or capital loss required to be included in computing an individual's taxable capital gain or allowable capital loss be increased from one-half to two-thirds for gains and losses realized in 1988 and 1989.
12. That in 1990, following a review of the subject of indexation of capital gains, the full amount of capital gains be included in income and the full amount of capital losses be deductible, provided such gains and losses are adjusted for inflation from the later of the date of ownership or January 1, 1972.

Lifetime Capital Gains Exemption

Qualified Farm Property and the Farm Exemption

13. That the definition of "qualified farm property" be amended so that it include only real property that is: (a) owned by the individual; (b) used prior to the year of disposition for a minimum of five years which need not be consecutive; and (c) used by the individual, his spouse, or any of his children actively engaged in carrying on the business of farming in Canada or by a "family farm corporation" or a "family farm partnership."
14. That the definition of "qualified farm property" be amended so that it include a share of capital stock of a "family farm corporation" or an interest in a "family farm partnership": (a) owned by the individual; and (b) in which the

individual, his spouse or any of his children was actively engaged in the business of farming carried on by the family farm corporation or family farm partnership for a minimum of five years, which need not be consecutive prior to the year of disposition.

Small Business Share Exemption

15. That a gain realized on the disposition of shares of a small business corporation qualify for the \$500,000 lifetime capital gains exemption only if: (a) the individual, who disposes of the shares, or the deceased spouse was actively engaged in the business, (whether prior to incorporation as a proprietor, partner or employee, or after incorporation) for a minimum of five years prior to the year of disposition which need not be consecutive; (b) the small business corporation was not engaged in the business of farming; and (c) the total assets of the small business corporation and all corporations associated therewith (determined in accordance with generally accepted accounting principles on a consolidated or combined basis, where applicable) do not exceed \$35,000,000, the limit to which statutory deferred income plans are subject when seeking to increase their foreign property holdings by investing in small business securities.

Cumulative Net Investment Losses

16. That, as proposed by the White Paper, after 1987, net taxable capital gains eligible for the lifetime capital gains exemption be reduced by other investment losses calculated through a cumulative net investment losses formula and deducted by the taxpayer in computing income for tax purposes.
17. That the definition of investment expenses in the cumulative net investment losses formula: (a) exclude any expense incurred before 1988 and amortized after 1987 as a result of property acquisitions made before 1988, such as a Canadian development expense, Canadian oil and gas property expense and capital cost allowance claimed on a multiple unit residential building; and (b) include terminal losses realized on the disposition of depreciable property acquired after 1987.
18. That the definition of investment income in the cumulative net investment losses formula include capital cost allowance recaptured into income in respect of depreciable property acquired after 1987.

Automobile Expenses

19. That the proposed 20-90 per cent rule not be adopted, and in its place the taxpayer may claim as a deduction the proportion of allowable expenses that represents business use less \$500. Allowable expenses include capital cost allowance and interest on money borrowed to acquire the vehicle, or lease costs, up to the maximum amounts proposed in the White Paper; and the actual cost of insurance, licensing, parking and all other operating costs.

20. That the \$20,000 limit on the cost of a passenger vehicle for claiming capital cost allowance or lease costs be increased by the amount of the relevant provincial retail sales tax on a \$20,000 vehicle and that there be a regular review of the limit.
21. That the current system of allowing a reduced standby charge for an employee who drives an employer-provided automobile less than 1,000 kilometers per month for personal use be retained.

Business Meals and Entertainment Expenses

22. That the proposed 80 per cent limitation on the deductibility of business meals and entertainment expenses be adopted but that the cost of meals while attending a convention, conference or seminar or while travelling overnight and out of town be fully deductible.

Certified Canadian Productions (Films)

23. That the capital cost allowance rate for certified Canadian productions be set at 50 per cent on a straight-line basis and subject to the half-year rule. It is further recommended that the put-in-use rule not apply to certified Canadian productions.

Multiple Unit Residential Buildings

24. That owners of multiple unit residential buildings on June 17, 1987 be allowed to continue indefinitely to claim capital cost allowance at a 5 per cent rate to create or increase tax-deductible losses.
25. That the first purchaser of a multiple unit residential building after June 17, 1987 be allowed to claim capital cost allowance at a rate of 4 per cent to create or increase a tax-deductible loss, provided the purchase price is less than the vendor's original cost.

Averaging

26. That block averaging be retained for farmers and fishermen.
27. That an appropriate averaging system be implemented to protect low-income earners from losing the benefit of personal tax credits as a result of fluctuations in income.

Taxation of Farmers

28. That farmers continue to have the option of choosing either cash accounting or accrual accounting for income tax purposes.
29. That the Minister of National Revenue consider establishing peer review committees that include farm operators, assessors and auditors. These committees would be used to review the operations and plans of farmers to

determine whether a farm operation has a reasonable expectation of profit, and the taxpayer can be deemed to be a farmer.

30. That Revenue Canada ensure that personnel with experience in farming assist in the review and audit of farmers' tax returns.
31. That individuals who qualify as being in the business of farming and use cash accounting for their farm business may deduct up to \$10,000 of farm losses against other income, subject to a claw-back of this deduction. For example, those with off-farm income of up to \$30,000 may have the full deduction; those with off-farm income greater than \$30,000 will have the allowable deduction reduced by \$1 for every \$2 of income above \$30,000.
32. That individuals who qualify as being in the business of farming and use accrual accounting may deduct all farm losses against other income.
33. That the White Paper proposals for modified accrual accounting, a profit test and a gross revenue test be dropped.

Chapter 5: Corporate Income Tax Reform

Manufacturing and Processing

34. That the rate of capital cost allowance for manufacturing machinery and equipment (Class 29) be set at 30 per cent on a declining balance basis and not at 25 per cent as proposed in the White Paper.

Put-in-Use Rule

35. That in determining eligibility for claiming capital cost allowances and investment tax credits in respect of any eligible property, the put-in-use rule be changed to a put-in-place rule.
36. That for the purpose of either a put-in-use or put-in-place rule, an asset be deemed to be put in use or in place, as the case may be, 24 months after it is acquired if it has not in fact been put in use or in place by that time.

Investment Tax Credits

37. That the investment tax credit for scientific research and experimental development expenditures that may be claimed in a year not be limited to one-half of federal tax payable.
38. That the refundability of R&D investment tax credits should depend on a "needs test" based on a corporation's income and not on whether a taxpayer is a public or private corporation.

Flow-Through Shares

39. That the rate at which the earned depletion allowance can be earned be reduced from 33 1/3 per cent to 16 2/3 per cent for eligible expenditures incurred after the end of 1988, and that the allowance be abolished for eligible expenditures incurred after 1989.

Eligible Capital Property

40. That eligible capital property be treated as a separate class of depreciable property with a deemed cost equal to the applicable percentage of its actual cost, and any proceeds of disposition be deemed to be the applicable percentage of the actual proceeds.
41. That the "applicable percentage" in respect of eligible capital property be increased from one-half to two-thirds.
42. That on the implementation of these recommendations the balance of existing cumulative eligible capital pools be increased by one-third, and the depreciation rate for eligible capital property be reduced from 10 per cent to 8 per cent.
43. That any proceeds of disposition of eligible capital property in excess of original cost be treated as a capital gain eligible for the \$100,000 lifetime capital gains exemption.
44. That the existing rules in relation to recaptured depreciation and taxable capital gains apply to the recognition of the proceeds of disposition of eligible capital property that are not receivable until a later year.

Real Estate

45. That carrying costs on vacant land continue to be deductible as a current expense by real estate development companies.
46. That the proposals requiring the capitalization of soft costs incurred during construction are appropriate and should be implemented, but the amounts should be capitalized totally to the building.
47. That the government implement an alternative minimum tax on the real estate industry. The tax would be established at a low rate and on an appropriately broad base with a *de minimis* rule. Furthermore, this tax would be payable, only to the extent that it was greater than regular corporate income tax but would be limited to 28 per cent of the Canadian portion of reported accounting income.
48. That while the White Paper proposals requiring the reduction in the rate of capital cost allowance for buildings from 5 per cent to 4 per cent should be adopted, an assessment should be made by the Department of Finance to determine whether a preferential rate of capital cost allowance should be available to taxpayers who renovate buildings that are over 50 years old.

Expenses of Issuing Securities

49. That, as proposed in the White Paper, expenses relating to the issue of shares, partnership interests and trust units be amortized over a five-year period; but that expenses relating to borrowing funds be amortized over the term of the debt obligation including any renewal periods, with a maximum of five years. Any unamortized costs should be deductible in the year in which the borrowings are repaid.

Chapter 6: Preferred Share Financing and Dividend Distributions

Preferred Share Financing

50. That the \$500,000 exemption of preferred share dividends for any group of corporations be reduced to a lower level of exempted dividends or be available only to non-taxable firms of a specific size.
51. That the government take steps immediately to introduce a comprehensive advance corporation tax on common and preferred share dividend distributions.

Chapter 7: Financial Intermediaries

52. That, to ensure taxable income reasonably reflects business income, bond and mortgage trading profits and losses be amortized over the remaining lifetime of the security for all financial intermediaries.

Financial Reinsurance

53. That in calculating required Canadian assets, the calculation be made monthly, or at least quarterly.
54. That the calculation of the Canadian investment fund be made in such a manner that an increase or decrease in foreign policy loans does not affect the Canadian investment fund.
55. That the use of financial arrangements, including reinsurance contracts, between financial intermediaries be blocked by a specific anti-avoidance rule similar to section 845 of the U.S. Internal Revenue Code.

General Loan Loss Reserves

56. That authorized general loan loss reserves continue to be set by formula but that the level of the reserves be reduced to one-half of its current level over five years.

57. That the Superintendent of Financial Institutions be allowed to require additional specific loan loss reserves because of factors such as geographical, industrial or sovereign concentration of risk and that these reserves be tax-deductible.
58. That methods be developed to allocate loan loss reserves by country for income tax purposes.

Claims Reserves

59. That the principle of requiring property and casualty claims reserves to be established using interest be accepted.
60. That structured settlement claims reserves be required to use interest immediately.
61. That property and casualty claims reserves for existing but unsettled claims be allowed to run off as settled.
62. That future claims reserves be required to be established using interest as soon as the Superintendent of Financial Institutions is satisfied that appropriate standards have been established by the Canadian Institute of Actuaries to ensure adequacy of reserves.
63. That increases in claims reserves or actuarial reserves required by the Superintendent of Financial Institutions for solvency purposes be tax-deductible.

Alternative Minimum Margin Tax

64. That effective January 1, 1988, the government institute a minimum corporate tax on the Canadian earnings of banks, trust companies and life insurance companies to be called the "alternative minimum margin tax" and that this tax be based on the margins of such financial intermediaries.
65. That the limits on equity and real estate investment recommended in the White Paper be eliminated.
66. That the 10 per cent/5 per cent/2 per cent ownership limitations on certain listed preferred shares and taxable SFI shares be reviewed to assess whether they would still be required given the adoption of the alternative minimum margin tax.

Investment Income Tax

67. That the proposed investment income tax on life insurance companies not be introduced.

Credit Union Shares

68. That to the extent that “accumulation unit” shares are permitted in the future by the provinces, capital gains treatment be available in respect of credit union shares.

Blue Cross

69. That the Department of Finance reconsider whether Blue Cross should continue to be exempt from income tax.

Chapter 8: Federal Sales Tax Reform

70. That parliament enact a law in 1988 to reform the existing federal sales tax system, such law to become effective as soon as possible thereafter.

Related Marketing Companies and the Shift to the Wholesale Trade Level

71. That the proposals to apply the federal sales tax to marketing companies related to the manufacturer and to shift the tax to the wholesale level for a limited range of products not proceed; and that in their place a temporary federal sales tax surcharge of three per cent of taxes payable be introduced, but that this federal sales tax surcharge not be levied on the proposed tax on telecommunication services.
72. That a specific anti-avoidance rule be enacted with respect to related marketing companies.

Tax on Telecommunication Services

73. That the residential Touch-tone feature be exempted from the proposed 10-per-cent telecommunications sales tax.
74. That all telephone subscribers in the “Remote North”, all of the Northwest Territories, Yukon, and other remote locations in Canada where year-round road, rail or boat links do not exist be subject to the proposed 10 per cent telecommunications sales tax on long-distance calls to a maximum of \$3 per month.

Chapter 9: Accelerated Remittances

75. That a formal system, financed by the government, should be established to allow for members of the Canadian Payments Association to be recognized as authorized tax collection agents of the government.
76. That payments made by taxpayers to the Receiver General for Canada should be deemed to be received when paid to a member of the Canadian Payments Association.

Chapter 10: Tax Avoidance and Compliance

77. That the form of the general anti-avoidance rule proposed by the White Paper not be adopted and the following substituted therefor:

General Anti-Avoidance Provision

“245(1) The Minister may ignore the consequences of an avoidance transaction and may reasonably determine the income, taxable income, tax payable or other amount payable of or refundable to any person under this Act, having concluded that such amount had been determined as a consequence of an avoidance transaction.

Avoidance Transaction

(2) An avoidance transaction means:

- (a) any transaction that results in an artificial or undue reduction, deferral or refund of tax or other amount payable under this Act; or
- (b) any transaction that is part of a series of transactions or events, which series results in an artificial or undue reduction, deferral or refund of tax or other amount payable under this Act.

Interpretation

(3) For the purposes of this section, “transaction” includes an arrangement, scheme, or event.

Adjustments in the course of a Ministerial Determination

(4) To make a reasonable determination under subsection (1) of the income, taxable income, tax payable or other amount payable of or refundable to any person under this Act, the Minister may:

- (a) disallow in whole or in part any deduction in computing income, taxable income, or tax payable or any part thereof;
- (b) allocate any deduction or any income, loss or other amount or part thereof to any other person; and
- (c) recharacterize the nature of any payment or other amount.

Adjustments by the Minister to Prevent Double Taxation

(5) The Minister, in order to eliminate double taxation, shall make any adjustment to income, taxable income, tax payable, or other amount payable or refundable under this Act of any person other than a person referred to in subsection (4), and the Minister shall notify the other person of the adjustment within 90 days of the day of mailing of any notice of assessment to the person referred to in subsection (4) for the year in which the avoidance transaction occurred.

78. That no specific penalties be applied to taxpayers who participate in an avoidance transaction as defined in proposed section 245.

Penalties

79. That the 50 per cent penalty on interest on late or deficient installments not be implemented.

Chapter 11: Tax Reform and Tax Simplification

80. That, as a pilot project, the relevant government departments form a group to follow the recommendations of the report Tax Simplification and simplify the sections of the tax system dealing with attribution rules.

Alternative Minimum Tax

81. That once the tax system as outlined in this Report is put in place and enough time has passed for the reform to be fully phased in, the Minister of Finance should review the need for the Alternative Minimum Tax.

Revenue Neutrality: The Impact of the Committee's Proposals on Federal Revenues

The Committee acknowledges that many of the recommendations in this Report will have an impact on federal tax revenues. Some of the recommendations reduce revenues, others aim to increase them. In keeping with the approach of the White Paper, the Committee has adopted the principle of revenue-neutrality as a constraint and, taken together, the recommendations of this report are revenue-neutral.

Measuring the revenue impact of each recommendation was not an easy task, although the Committee did what it could in the short time available to obtain detailed revenue impact estimates. In some cases this was straightforward, and precise calculations could be done from publicly available data, but in others the implications for revenue impact were difficult to determine. The Committee did consult with the Department of Finance to obtain detailed and precise revenue impact estimates, and it is satisfied that the package of proposals in this Report is approximately revenue-neutral.

An overview of the revenue impact of the Committee's recommendations is given in Table 1. For this purpose, the recommendations have been combined into small groups. No estimates were made of the proposed overhaul of capital gains taxation and the advance corporation tax, which can be implemented in conjunction with Stage Two in a way that is revenue-neutral. Furthermore, the estimates presented indicate the *average* annual revenue impact for the next several years. Presenting detailed annual impact estimates for the next five years, as in the White Paper, would suggest a degree of precision that was not possible.

The table indicates how much revenue is gained or forgone for each group of the Committee's amendments to the White Paper package. For instance, the revenue impact of the changes in taxation of financial intermediaries and the minimum tax on real estate companies is estimated as the total revenue from the Committee's proposals net of the revenue forgone by not implementing the investment income tax proposed in the White Paper, and net of an allowance for reduced tax revenues outside the financial sector due to trading-away of tax-free financial instruments. By the same token, the estimate of revenue from the surtax on the federal sales tax is net of the \$300 million the White Paper projected could be raised by moving the tax to related marketing companies and the wholesale level.

These revenue estimates represent the net impact of the Committee's major recommendations on federal revenues. The recommendations of the Committee can be said to be both balanced and revenue-neutral.

Table 1

**Revenue Neutrality of the Committee's Recommendations:
Estimated Annual Impact on Federal Revenues**

	(millions of dollars)
Enhanced child benefits, taxation of family allowances and increase in dependants' net income threshold	- 225
Capital gains and eligible capital property	0
Automobile and other expenses, averaging, farm income	- 100
Enhanced write-offs for manufacturing and processing, not restricting investment tax credits, and other smaller corporate tax changes	- 200
Changes in taxes on financial intermediaries, including the alternative minimum margin tax, and the alternative minimum tax on real estate companies	400
Net interim sales tax changes	125
Estimated net impact on revenue	0

Background to Tax Reform and to this Report

If taxes are inevitable, as most people agree they are, then so is tax reform. Throughout history, tax reform has been activated by many events, from wars and revolutions to royal commissions and legislative changes. On June 18, 1987 the Honourable Michael H. Wilson, Canada's Minister of Finance, presented to Parliament a White Paper on tax reform. According to the White Paper, reform is to take part in two stages. Stage One includes reform of personal and corporate income taxes, to take effect generally in the 1988 tax year, and several interim measures affecting the federal sales tax that will be in place until implementation of the second stage of tax reform. Stage Two will deal with reform of the sales tax system; the White Paper provides three options for reform, but does not give a timetable for implementation. Revenue from sales tax reform will replace revenue from the current federal sales tax and allow removal of the personal and corporate surtaxes, further reductions in personal income taxes for middle-income individuals and families, and increases to the refundable sales tax credit. (Incidentally, the term White Paper is used in a general sense to mean both the actual White Paper, which is a relatively brief statement by the Minister of Finance, and the related documents on tax reform released by him on June 18, 1987.)

The White Paper proposals were referred to the Standing Committee on Finance and Economic Affairs. In this report, the Committee discusses the proposals included in Stage One of tax reform. Stage Two will be the subject of further hearings of the Committee and a subsequent report.

The Objectives of Reform

In a sophisticated economy the tax system is constantly evolving, and the evolution in Canada has produced what the Minister recognized as "a crazy quilt of special incentives, special deductions and special write-offs." Each special measure benefits someone (or some corporation) but, as the measures increase in number, those not receiving benefits begin to see the tax system as unfair. Moreover, such special measures often have indirect effects which, if large enough, lead to countermeasures. The result is the complicated and inefficient tax system that the White Paper proposes to reform.

According to the White Paper, its tax reform proposals have been designed to meet five broad objectives: fairness, competitiveness, simplicity, consistency, and reliability. The first three are fairly standard goals of tax reform, although “competitiveness” is often replaced by, and considered part of, the efficiency objective. Consistency refers to the need for the personal, corporate and sales tax structures to be well-integrated and internally consistent and for the entire tax system to be externally consistent with other government policies and programs. Reliability means that revenues raised are predictable and based on a fair, broad and secure tax base, and that rules can be relied on to stay the same over time.

Balancing these objectives is the challenge of tax reform. The White Paper attempts to balance them by reducing tax rates and the number of tax brackets, broadening the tax base, and shifting some of the tax burden from the personal income tax to other sources of revenue. On the whole, it achieved its aim, although the objective of simplicity appears to have been overlooked or given less emphasis than other objectives. There were expectations that tax reform would address the problem because of general concern over the growing complexity of the tax system. However, although the White Paper introduced some modest simplifications, the problem remains. This is taken up in Chapter 11.

In addition to attempting to balance the five objectives, tax reform had to be designed so as to be revenue-neutral; that is, revenues to government from taxes should be the same after reform as before. Moreover, reform in Canada was to be consistent with recent tax reform in the United States. Consistency in this case does not mean that tax reform must be the same here as in the United States, but that, for competitive reasons, reform of personal and corporate income taxation must not be too far out of line with what has taken place in the United States. As the White Paper put it: “In an increasingly interdependent world, it is important not to allow Canada’s tax system to put our traders, businesses, investors and highly skilled individuals at a competitive disadvantage with other countries.” Of special concern was the widening gap between statutory corporate tax rates in Canada and in the United States. This issue will be discussed below.

Overview of Government Tax Revenue

Income tax is probably the most visible tax to most Canadians. Its visibility, however, tends to obscure the contribution to revenue of the rest of the tax system. The breakdown of total government tax revenue in Table 2 provides some needed perspective.

In the table, federal personal income taxes do stand out as the largest component of tax revenue, representing over 50 per cent of federal revenues. Large as this component is, however, tens of billions of dollars are raised from other sources. Because most provinces tie their income taxes to the federal income tax, reform by the federal government has repercussions for provincial fiscal policy. And a change in provincial fiscal policy can affect other revenue items — from provincial sales tax rates to local property taxes. Thus federal-provincial interrelationships, which can be direct or indirect, emphasize the importance of the consistency objective.

Table 2

Total Government Tax Revenue, 1986

	Federal	Provincial and Local
	(millions of dollars)	
Total tax revenue	70,882	66,913
Total income taxes	50,145	28,248
Personal	38,321	24,072
Corporation	10,724	4,176
On payments to non-residents	1,100	0
Property and related taxes	0	16,840
Total consumption taxes	19,427	19,197
General sales	10,850	13,081
Motive fuel	1,297	3,389
Alcoholic beverages and tobacco	2,616	2,000
Customs duties	4,205	0
Other	459	727
Miscellaneous taxes	1,310	2,628

Source: Based on data from Statistics Canada, CANSIM Division.

By focussing on a single year, the table of course misses the changes in relative importance of revenue sources over time. The most important change, and an important stimulus to the current reform proposals, has been the relatively greater contribution to revenues by the personal income tax. In the 1950s, personal income tax produced about one-quarter of total federal tax revenue; by 1986 this tax produced more than one-half of federal tax revenues. The shift has also been apparent in more recent years. As the White Paper puts it:

The relative importance of personal income taxes has increased markedly, while the shares of both the corporate income tax and sales tax have declined significantly. This shift in the balance of federal tax revenues reflected a combination of policy actions undertaken in the 1970s and early 1980s, and the uneven impact of economic conditions in the late 1970s and early 1980s on the composition and size of the underlying tax bases.

The White Paper concludes that a rebalancing of federal tax revenue shares is needed.

In the absence of tax reform, increasing reliance on personal income taxes would have continued. The tax measures in the first stage of tax reform will lower the share of personal income taxes and increase the shares of both corporate income and sales taxes.

The Issue of Tax Expenditures

What an individual or company pays in taxes, the government receives in tax revenue. To these two sides of any tax system must be added another, namely tax expenditures. Tax expenditures, which are also called tax incentives, tax preferences or selective tax measures, arise when the government introduces a measure that allows an individual or corporation to pay less tax than would be paid without the measure. Examples include the deduction of tuition fees and investment tax credits. These measures may be based on the finest motives — stimulating higher education or promoting investment in less developed regions — but they narrow the tax base.

Concern about tax expenditures has been growing in recent years, and the Department of Finance has responded by publishing documents about these measures in 1979, 1980 and 1985. The most recent, *Account of the Cost of Selective Tax Measures*, provided estimates for personal and commodity tax measures for 1979 to 1983 and for corporate income tax provisions for 1979 to 1982. The Department of Finance documents are very cautious in presenting estimates of individual selective tax measures and warn that simply totalling the estimates will not produce a valuation of all the measures in the Canadian tax system. Nevertheless, the total value is in the tens of billions of dollars.

One tax expenditure that has received a great deal of attention is not covered in the Department of Finance documents — namely, the scientific research and development tax credit (SRTC), which was implemented in January 1984 and terminated in May 1985. The experience of the SRTC, especially one type of transaction that became known as the “quick flip”, has been called a fiasco. In his 1984 Annual Report the Auditor General highlighted problems with the SRTC and the quick-flip transactions; his 1985 Annual Report included a chapter on income tax expenditures in general. In June 1986, the House of Commons Standing Committee on Public Accounts issued a more comprehensive report dealing with the problems of the SRTC.

Given this experience of the SRTC, eliminating tax preferences would seem a desirable way to broaden the tax base. Tax preferences, however, do recognize the importance and special problems of specific groups, of which Canadian artists are a good example. As the Canadian Conference of the Arts put it during an earlier appearance before the Finance Committee:

Although we recognize the government intends its tax reform to be beneficial to Canadians in general . . . we caution that such a global and general approach will drown out yet again the recognition we have been striving to achieve for artists and arts organizations within the tax system.

This Committee recognizes the special place of artists in Canadian society and would like to see them supported in as efficient a way as possible, because Canada cannot afford to neglect its culture or the artists who contribute to it. Other special interest groups, however, could similarly argue that their special circumstances merit special treatment in the tax system. An important part of tax reform is the rebalancing of the tax system to give more weight to the goals of equity and simplification than to the arguments of special interest groups.

Thus, although the White Paper attempts to broaden the tax base by removing some tax preferences, it recognizes limits to this process: "The tax reform proposals put forth in this White Paper strike a balance between removing specific preferences and recognizing Canadian priorities and needs." One of the tasks of the Finance Committee is to see how the balance was struck.

U.S. Tax Reform

Tax reform in the United States has provided a stimulus to reform in Canada. In fact, the U.S. *Tax Reform Act* of 1986 put pressure on all industrialized countries in the West to examine and reform their tax systems. The most prominent features of U.S. tax reform are a reduction in top tax rates for individuals and corporations, a broadening of the tax base by reducing or eliminating numerous tax benefits, and a shifting of the tax burden from individuals to corporations.

In 1988, personal income tax in the United States will have a two-tier structure — 15 per cent for taxable income below US\$29,750, and 28 per cent for taxable income above that level. Prior to tax reform, there were 15 personal tax brackets, with the top one at 50 per cent for taxable income greater than US\$175,250. The top corporate tax rate in the United States drops from 46 per cent to 34 per cent.

Capital gains will be taxed as income, and individuals will no longer be able to deduct the interest charges on car loans, credit card purchases and other consumer loans. Corporations will also be affected by the new treatment of capital gains and, in addition, they face restrictions on business meals and entertainment expenses, less generous depreciation deductions, and a minimum tax based on a broadened definition of income. The net effect is estimated to be an increase in corporate taxes of US\$120 billion over five years.

To provide competitive conditions, the tax system in Canada should not get too far out of line with that in the United States. Canada should not, however, simply copy the U.S. reforms. For one thing, there is an important provincial dimension to federal tax reform in Canada because of the way most provinces link their tax systems to that of the federal government. Links between the states and the federal government are weaker in the United States. Moreover, the United States had much greater opportunity for broadening the tax base before reform than Canada has now. Social benefits and medical programs are more extensive in Canada than in the U.S., so income taxes have been higher here, and they will continue to be higher as long as Canada enjoys more extensive social benefits.

Other Influences on Tax Reform

Recent reform of the U.S. tax system is not the only influence on tax reform in Canada. As is the case in most sophisticated economies, Canada has had periodic reviews of its tax system. The most sweeping review was the Royal Commission on Taxation appointed in 1962. The Commission, called the Carter Commission after its Chairman Kenneth E. Carter, finished its report in December 1966. The report, which

was tabled in the House of Commons in February 1967, comprised six volumes and an index. In addition, there were about thirty volumes of related studies.

The Commission focussed on personal and corporate taxation and proposed comprehensive changes to the tax system that were based on several popular objectives of taxation with equity given the greatest weight. The first conclusion of the report sounds a note that is familiar and relevant 20 years later:

The present system does not afford fair treatment for all Canadians. People in essentially similar circumstances do not bear the same taxes. People in essentially different circumstances do not bear appropriately different tax burdens.

The changes proposed also have a familiar ring, because of the issues they raised and the solutions they offered to perceived flaws in the tax system. Among the proposed changes were a comprehensive concept of income (the principle that "a buck is a buck", so gifts, bequests, capital gains and other forms of income should be treated the same); a new schedule of progressive tax rates that would lower top marginal tax rates; recognition of the family or the unattached individual as the basic tax-paying unit; integration of corporate and personal income taxes; and replacement of the manufacturers' sales tax by a more comprehensive retail tax.

The Report of the Carter Commission was followed in 1969 by a White Paper which in turn was followed by Reports of Committees in the House of Commons and Senate. The government finally enacted tax reform legislation in the budget of June 18, 1971, and tax reform was implemented effective January 11, 1972. The tax reform measures were not as sweeping as those put forward by the Commission, but they did include broadening the tax base, integrating personal and corporate income taxes, lowering the top marginal rates, increasing personal exemptions and making one-half of capital gains taxable.

Subsequent budgets introduced large changes to the tax system, and their partial reforms and tinkering — found in most budgets — eventually led to the complicated tax system we have today.

Work of the Committee

By its nature, the Committee often deals with tax-related issues, regularly examining ways and means motions and analyzing specific proposals that would require changes to Canadian tax laws. In early 1986, the Committee reviewed the issue of tax simplification and in June 1986 issued the Report *Tax Simplification*, which concentrated on the personal income tax system.

In his speech to the House of Commons on October 23, 1986, the Minister of Finance presented guidelines for the then forthcoming tax reform. He asked the Standing Committee on Finance and Economic Affairs to review the guidelines and "make recommendations on how the government's goal for tax reform can best be achieved, while maintaining a system that suits Canada's needs."

There were nine guidelines set out in the Minister's speech to the House:

fairness,	economic growth,
simplicity and compliance,	Canadian priorities,
balance,	transitional implementation, and
stability (of revenue),	consultation.
international competitiveness,	

The list of guidelines can be considered an extension of the three characteristics usually considered important to an ideal tax system — fairness, simplicity and efficiency — or an extension of the five objectives given in the White Paper.

The Committee held public hearings with more than 20 groups from November 1986 to April 1987. In addition to these sessions, the Committee met several times with representatives of the Department of Finance. Although certain of these sessions were *in camera* hearings about tax reform, the Department did not divulge the specifics of forthcoming tax reform. Other sessions with the Department of Finance were concerned with the ways and means motion in October 1986 implementing the February 1986 budget measures. All of these hearings touched upon issues important to tax reform, as did the appearance of the Department to discuss its Main Estimates for the 1987-88 fiscal year.

With only a general outline of the prospective tax reform, the Committee developed what could be viewed as an investigative role during its early hearings. Instead of probing to discover how a witness reacted to a specific proposal, the Committee let each witness establish the ground to be covered. Some witnesses presented comprehensive tax reform proposals; others focussed on one or two specific issues (such as tax credits for low-income Canadians or capital cost allowances for manufacturers). Several discussed the implications of replacing the existing federal sales tax with a business transfer tax (BTT), although no specific proposal was before the Finance Committee. Nevertheless, these early hearings provided an excellent preview of the work that would follow the White Paper.

The Minister of Finance presented the White Paper on Thursday evening, June 18, 1987, and the Committee began hearings on tax reform the following Monday. The initial sessions were with officials from the Department of Finance who surveyed the White Paper for the Committee and reviewed specific issues.

Even before the White Paper was presented, the Finance Committee had begun assembling a staff of accountants, lawyers, economists and other researchers. Over the summer, this research staff met several times with officials from the Department of Finance, and these meetings led to further inquiries for information and interpretation as the critical issues of tax reform emerged and while the Report was being prepared.

Also during the summer, briefs from interested Canadians — individuals and groups — began arriving, in a trickle at first and then in a flood around the August 18 deadline. Over 550 briefs were sent to the Committee, and they were analyzed according to the issue or issues addressed, with the information stored by computer. After review by Committee members and the researchers, the briefs formed the basis for inviting witnesses to appear before the Committee, and in turn as preparation for the hearings.

The Committee held hearings with 174 witnesses. (The Departments of Finance and National Revenue are each counted once although they appeared several times.) These hearings were held in Ottawa and, during the last two weeks in September, in cities in the west and east. In addition to the public hearings, the Committee held numerous *in camera* working meetings to discuss issues raised by the White Paper, and the briefs submitted to review the testimony of the witnesses. In the middle of October, the Committee spent three days at Mont Ste.-Marie, Quebec, to concentrate on its Report.

The Committee's mandate was to examine the proposals for Stage One of the tax reform as presented in the White Paper. Specifically, this Report examines issues raised in the White Paper document *Income Tax Reform* as well as the issues having to do with transitional measures proposed in the White Paper.

The perceived importance of the issues raised in the White Paper documents changed as the Committee reviewed briefs and progressed with the hearings and discussions of tax reform. The structure of this Report is based loosely on the structure of the *Income Tax Reform* document, with the addition of chapters on Stage One federal sales tax changes and simplification.

In a report of this nature the emphasis given specific topics depends on several factors, including the complexity of the topic, the emphasis given the topic in briefs and hearings, and whether the Committee agreed substantially with the White Paper — in which case a topic is treated briefly or not at all. In some cases, the discussion of a topic in one section covers related topics that are then not treated in the other relevant sections.

In general, the Committee agrees with the stated objectives and thrust of tax reform. The shift from deductions and exemptions to credits, the lowering of tax rates, and the broadening of the tax base make the system fairer and more progressive, and the Committee welcomes these moves. As the "List of Recommendations" shows, however, the Committee does not accept many of the details found in the White Paper. The reasons for disagreement and the Committee's analysis of the recommendations are set out in the text of the Report.

Therefore, the Committee recommends:

1. **That the Canadian income tax system be reformed along the lines proposed in the White Paper on Tax Reform, and in particular that the proposed base-broadening measures, conversion to credits and rate structures for the corporate and personal income tax be implemented, and that the other measures under Stage One of tax reform be adopted, subject to the recommendations that follow.**
2. **That the tax system be amended less frequently following reform, and that it be kept as stable and simple as possible.**

The Effects of Tax Reform on the Economy

One of the objectives of tax reform is encouraging competitiveness, growth and jobs. The White Paper argues that reducing subsidization of particular types of investment through the tax system makes the economy more efficient; that lower tax rates are the best way to reward success and will stimulate economic activity; and that the tax system should not place Canadians at a competitive disadvantage in international and domestic markets.

While examining the effects of the White Paper proposals on the economy, the Committee invited some economic policy research organizations to present their analyses. There was general agreement that the proposed tax reforms would have some impact on the macroeconomy in the next few years. Personal tax reform should give a boost to consumer spending in late 1988 and 1989.

Reform will also have some lasting structural consequences. These will be positive if sales tax reform under Stage Two goes ahead. The witnesses agreed that the Canadian tax system will remain competitive with the U.S. system. No analysis was offered of regional economic impacts, but witnesses did indicate that differences were likely to be very minor.

Macro-Economic Impact

As the White Paper proposals are revenue-neutral and involve only a limited restructuring of revenue sources, their short-term impact on the economy will be modest. The timing of the elements of the package has an influence on the short-term impact. Stage One provides for a personal income tax reduction in 1988 and particularly in 1989 (through refunds), which will boost consumer spending. The tax cut is financed in part by acceleration of revenue collections, which has very little effect on the economy. Increases in sales and corporate taxes will temper the stimulative effect of higher disposable incomes of consumers, the more so after 1989 since the corporate tax changes are phased in gradually.

A temporary boost to economic activity results. According to several independent studies presented to the Committee, production in 1989 may be as much as 0.5 per cent higher than without tax reform. There could be 30,000 to 100,000 more jobs, and the

unemployment rate would drop by 0.2 to 0.4 per cent. By 1991 the change in employment would be higher still. The annual change in the Consumer Price Index would be 0.1 to 0.2 per cent higher over the period 1988-91 because of higher sales and corporate taxes and higher activity levels.

Several witnesses noted with approval the more even taxation of all types of investment, observing that this will improve quality of investment over the longer haul by reducing tax-induced distortions. However, some warned that in spite of this Stage One alone may well be a drag on the economy in the longer term, because the increase in taxation of investment it imposes could slow down economic growth.

The economic experts all called for early implementation of Stage Two. Although sales tax reform would have transitory inflationary effects when introduced, it is expected to have lasting economic benefits. Replacing the current federal sales tax reduces distortions, removes taxes on business inputs, and enhances the competitive position of Canadian products and services. Insofar as Stage Two would include income tax cuts, it might also stimulate saving and investment, work effort and enterprise, and thus offset any lasting negative effect of Stage One on economic growth.

Competitiveness

The macro-economic analyses presented to the Committee implicitly assume that Canada's tax system would remain internationally competitive under the White Paper proposals, especially compared to the tax system in the United States. The testimony heard by the Committee suggested that on the whole the tax system does remain competitive, and an analysis by the Conference Board of Canada showed that the corporate tax system continues to give Canadian manufacturers a slight if somewhat reduced edge. These matters are examined in more detail in other parts of this report. The point to be made here is that, in the absence of reform, the Canadian tax system would lose that competitive edge. Tax revenues, investment and jobs would be lost to the United States. Preventing such a situation surely is one of the economic benefits of reform, one that may well outweigh the other effects discussed earlier, and it certainly lends urgency to tax reform.

The Deficit

As the White Paper indicates, the Stage One proposals have virtually no effect on the federal deficit in the medium term. Insofar as Stage One stimulates economic activity in the next few years, some extra revenue will be generated.

Some economic policy research groups expressed the view that reform should have contributed to deficit reduction and not merely be revenue-neutral. They were concerned that the economic projections presented in the White Paper may be too optimistic, and that the deficit could turn out to be larger if the economy performs worse than projected. It was noted that the yield from base-broadening measures is uncertain, and could be lower than projected. The concern about the projected size of the federal deficit was shared by a number of representatives of the business community.

The Committee, however, feels that tax reform is a worthwhile endeavour on its own merits, and that combining tax reform with a change in fiscal strategy would complicate matters greatly and make the enterprise more risky.

As for the uncertainty attached to yield estimates of base-broadening measures, it may be recalled that the existence of many generous tax preferences has led to unanticipated revenue shortfalls in the past. By closing down or tightening these preferences, base-broadening reduces the risk of revenue shortfalls in future. Many of the measures directly stem the ongoing erosion of the revenue base and prevent future such erosion. Although the yield of individual base-broadening measures may be impossible to estimate with precision, taken together they are sure to make revenue projections more accurate by providing a more reliable revenue base. Therefore, the Committee endorses this thrust of tax reform. It has thoroughly reviewed the proposals to ascertain whether they do indeed ensure a reliable revenue base, and through many of its recommendations contributes to this objective.

Personal Income Tax Reform

Impact and Review

In the White Paper proposals for personal income tax reform, three broad sets of changes are envisaged that reduce federal revenues from personal income taxes by \$2-\$2.4 billion per year over the next five years:

- lower tax rates and reduction of the current ten tax brackets to three;
- conversion of personal exemptions and certain deductions into tax credits; and
- base broadening.

In its examination of personal income tax reform, the Committee was aided by comments from many briefs and from a large number of witnesses. Naturally the comments focussed on the fairness of the reformed system. The introduction of tax credits and the base broadening thrust received high marks. Yet the overall impact of the changes on progressivity, many witnesses noted, is rather neutral, and they expressed disappointment that the White Paper did not propose full indexation of brackets and credits.

The Tax Credit Proposals

Almost all briefs and witnesses welcomed the conversion of personal exemptions and certain deductions into tax credits. By providing the same tax reduction to all qualifying taxpayers irrespective of income, tax credits help to make the tax system fairer and more progressive.

Two general questions were raised in the Committee's hearings. A number of witnesses wondered why some deductions are to be replaced by the tax credits and others are not. Many also observed that conversion to credits is not an isolated step and that it needs to be evaluated in the context of reform as a whole. These questions are addressed in turn.

The Committee has spent many hours discussing the scope of the conversion to credits with officials of the Department of Finance and witnesses. All personal exemptions are converted, making for a coherent, well-integrated set of reform

measures that enhance fairness and may actually simplify tax filing to some extent. The Committee is not in full agreement with the proposed changes in the tax treatment of dependent children, but it agrees with the basic thrust of the introduction of tax credits that replace personal exemptions.

As regards deductions, the White Paper proposes that tuition fees and education expenses, CPP/QPP and UI contributions by employees, charitable donations and medical expenses be treated through credits. Pension and RRSP contributions, union and professional dues, child care expenses and the CPP/QPP contribution payable on self-employed earnings will continue to be treated as deductions.

The reasoning behind why some deductions are converted and others are not is based on the general principle that expenses incurred to earn income should be deductible. By contrast, tax incentives and recognition of special circumstances of the taxpayer, in line with the treatment of dependants, are fairer when they are in the form of credits. In the view of the Committee the new credits for tuition and education expenses, charitable donations and medical expenses are justified on this basis. As for the deductions that remain, the Committee has examined CPP/QPP contributions on self-employed earnings and concludes that these ought to be treated as credits in the interest of tax simplification. The White Paper indicates that the government will deal with child care expenses in the context of its review of the policy on child care. Union and professional dues may be regarded as employment expenses that should be treated as a deduction.

Officials of the Department of Finance explained to the Committee why deductions for retirement savings are not converted to credits. A tax credit at the 17 per cent federal rate would reduce tax assistance for employee contributions to RPPs and for RRSP contributions out of incomes in the middle and upper brackets. This would discriminate against contributory plans and RRSPs, and create a tax incentive to shift to greater employer contributions. High-income contributors approaching retirement would prefer to drop out of their plans instead of saving federal taxes at 17 per cent on contributions towards benefits a few years later that would be taxed at 26 or 29 per cent. In other words a tax credit for contributions could not be introduced without re-examining how benefits should be taxed. Clearly there are practical obstacles to a tax credit for private retirement savings plans.

No such obstacles stand in the way of a tax credit for CPP/QPP contributions, since the contributions are mandated by the government. The same applies to UI contributions. Comparing the fairness of a tax credit and a deduction is not simple, however, because the tax treatment of benefits is an important factor. For social insurance plans it can be argued with some justification that they provide an income floor, and that the plans operate almost entirely in the lowest income brackets. The switch to a tax credit raises a large amount of revenue, and by taking it from middle and upper incomes a contribution is made to keeping the personal income tax system progressive.

Progressivity

It is clear that the White Paper proposals will not redistribute the tax burden among different income groups in a major way. The average tax reduction per household is 0.9 per cent of income. Households with incomes in the \$15,000 to \$30,000

range experience reductions of 1.4 per cent, those in the \$50,000 to \$100,000 range a 0.6 per cent reduction; the other groups are very close to the average of 0.9 per cent (Table 3). The share of federal taxes payable is somewhat reduced for incomes under \$30,000 and increased for incomes above this level (Table 4).

Table 3

Overall Impact of Tax Reform for all Households Affected

Average Change in Federal/Provincial Personal Income Tax Due to Tax Reform Measures, 1988				
Income range	Number affected	Average change	Change as a per cent of tax	Change as a per cent of income
(\$000)	(000)	(\$)	(%)	(%)
Under 15	2,860	-90	-15.5	-0.8
15-30	3,310	-320	-10.2	-1.4
30-50	2,575	-310	-4.1	-0.8
50-100	1,740	-395	-2.6	-0.6
100 and over	235	-1,615	-3.2	-1.0
Total	10,720	-295	-4.5	-0.9

Source: Department of Finance, *Tax Reform 1987: Income Tax Reform*, Table 2, p. 33.

Table 4

**Share of Federal Income Taxes Paid by Individuals
by Income Group, 1988**

Income range	Share of taxfilers	Share of federal tax payable	
		Before tax reform	After tax reform
(\$000)	(%)	(%)	(%)
Under 15	46.7	1.6	1.3
15-30	28.7	25.2	24.0
30-50	18.2	38.3	38.5
50-100	5.5	22.8	23.8
+100	0.8	12.1	12.4
Total	100.0	100.0	100.0

Source: Department of Finance, *Tax Reform 1987: Income Tax Reform*, Table 4.4, p. 37.

These figures show the combined result of base broadening, conversion to tax credits, and rate reductions. Base broadening involves eliminating or restricting a variety of tax preferences that are most attractive to and therefore used mainly by high-income people. Thus, as shown by impact data in the White Paper, the proportion of households that experience an increase in taxes as a result of reform rises with income. Although tax preferences are curtailed, however, the share of taxes borne by high-income people remains almost the same, partly because of the sharp reduction in the top marginal federal rate from 34 to 29 per cent, and partly because of the modest nature of a number of the base-broadening measures.

As pointed out earlier, the conversion of exemptions and deductions into tax credits in itself makes taxes more progressive, since the value of a deduction is greater the higher the income tax bracket, whereas a credit gives the same amount of tax reduction to all. But the progressivity of the tax system changes little when the rate cuts are taken into account. Thus two powerful mechanisms for making the tax system more progressive — base broadening and replacing exemptions and deductions with credits — have been used to accommodate a shift to a less progressive rate structure in a way that leaves the distribution of the tax burden by income class virtually unchanged.

Partial Indexation

Many witnesses appearing before the Committee deplored the fact that the White Paper did not propose full indexation of the personal tax system. The Committee has carefully reviewed this matter with the help of analyses of the impact of partial indexation from some of the briefs.

If prices and incomes are rising as they currently are in Canada, the absence of full indexation means that the revenue from personal income taxes increases faster than incomes. The tax burden rises, and this happens not evenly across the income scale, but most rapidly for those with incomes in the lower ranges of each tax bracket, including low taxable incomes. The income threshold at which people begin to pay income tax falls in real terms.

What the witnesses and briefs that addressed partial indexing suggested was that the gains from personal income tax reform are transitory, as several years without full indexation will raise the tax burden on incomes back to the level where it would be in 1988 without tax reform. This is obviously a valid point if the annual inflation rate equals or exceeds the maximum indexation factor of 3 per cent per year. The White Paper projects that the rate will be 3 per cent on average for the years 1989-92. Calculations made for the Committee indicate that, after three years of partial indexation when inflation is at or above 3 per cent, personal income tax revenue will reach approximately the same level in relation to income as in 1988 before reform.

This led the Committee to compare the impact of tax reform and of three years of partial indexation. The question the Committee asked was whether a taxpayer in 1991 would pay less tax in relation to income than in 1988 without reform. It is recognized that tax reform reduces the tax burden in 1988 and subsequent years. The comparison is between the personal income tax burden in 1991 — after reform and three years of partial indexation — and in 1988 without reform.

It was found that a single taxpayer with only income from employment will still be better off in 1991 than he would have been in 1988, irrespective of his income. A one-earner family of four with income in the low or high bracket will also still be better off in 1991. However if the earner in this family has income in the middle bracket, the family will be worse off by 1991. Partial indexation erodes the value of the refundable child tax credit, especially for families who receive a partial credit, and of the new child exemption credit. The tax benefits for parents of dependent children are also reduced under tax reform. Hence tax reform does not correct for the erosion of child benefits through partial indexation, and it reduces child benefits for middle income families still further. For larger families these effects will be more severe. This matter is addressed in the section "Child Benefits".

It can also be shown that the White Paper proposals would raise the income threshold at which a one-earner family of four starts paying tax by an amount that offsets the effect of three years of partial indexation. For most other taxpayers the threshold is raised by even more through tax reform. In this way the White Paper proposals reduce to zero the taxes of 850,000 people who would otherwise pay taxes. Families with incomes below the threshold are not affected by tax reform, but they experience a reduction in the real value of their tax refunds as a result of partial indexation. However it should also be noted that the refundable child tax credit has been increased substantially since 1985.

The Committee is of the view that the fiscal situation of the federal government rules out full indexation. It has considered full indexation of the basic personal credit and other personal credits as a way to automatically update the taxable threshold and offset the effect of partial indexation on low taxable incomes, but has had to reject it because of its high cost and inadequate targeting. The Committee notes with approval that tax reform corrects for the effects of several years of partial indexation on incomes in the low bracket and on the income threshold above which people pay federal income tax, and urges the government to continue to make such corrections at regular intervals.

A Competitive Rate Structure

Commentary on the competitiveness of the Canadian personal income tax system tends to focus on a comparison of the top marginal rate with that in the U.S. The importance to Canadian well-being of highly-paid professionals, entrepreneurs and investors and the idea that these individuals have a high degree of geographic mobility underlies this concern.

The top federal rate of 29 per cent is close to the top U.S. rate of 28 per cent. When provincial and state taxes are brought into the equation, however, the comparison is substantially less equal. On the other hand, the U.S. federal rate exceeds 28 per cent over a wide range of income because of the recapture of the benefit of the 15 per cent rate and the phase-out of the personal exemption. Thus, a rate of 33 per cent applies from \$43,150 to \$101,760 for single taxpayers and from \$71,900 to \$171,650 for joint filers.

Certain witnesses wondered how critical the top personal marginal rate is for competitiveness. It was argued that all Canadians enjoy the benefit of a larger public sector role, and that the choice of location depends on quality of life and many other

factors besides taxes. Other witnesses however stressed the mobility of the movers and shakers who are so vital to the Canadian economy. Some also made the point that in the U.S. recently high incomes contributed more tax revenues after the top marginal rate was reduced.

The Committee concludes that the White Paper proposals for personal income tax reform have been carefully crafted so as to effect an acceptable compromise among the criteria of fairness, efficiency and competitiveness. This is only a global assessment, of course, and the Committee is proposing amendments to some specific White Paper proposals. For instance, the Committee proposes some improvements in child tax benefits. However the overall impact of the package is appropriate and the Committee endorses the new rate structure along with the thrusts of base broadening and conversion to credits.

Specific Tax Credits

Child Benefits

The tax recognition of children is an integral part of the family benefit system, which is currently undergoing substantial changes that are augmented by the White Paper proposals. Many briefs, as well as the witnesses at the Committee hearings, addressed the changes in child benefits, and they did not confine their comments to the White Paper proposals. All expressed concern about the sweeping restructuring of family benefits and the sharp erosion of benefits for middle- and upper-income families.

Evidence presented to the Committee indicates that, over a span of seven years from 1984 to 1991, real child benefits will be cut by half or more for upper- and middle-income families, whereas real benefits for low-income families will end up being at the same level in 1991 as in 1984, if the government does nothing to change the effects of partial indexing and the White Paper proposals. However, the government has made commitments with respect to the child benefits area, and, although the government may choose to focus exclusively on a new national child care policy, it would be unreasonable to take the projected level and structure of benefits in 1991 as a starting point for policy recommendations.

Thus the Committee is faced with a dilemma. Its task is to examine the White Paper; yet larger changes are occurring, and it is these the Committee was urged to address. In the end, the Committee has decided to confine its recommendations more or less to the White Paper proposals and to the tax recognition of children. Elsewhere in this report some comments are offered in respect of partial indexation, which pertain also to child benefits, and the Committee feels that there will be other opportunities to address family benefits in future.

The White Paper proposals contain five sets of changes to child benefits, which are discussed below:

1. Converting the child tax exemption into a tax credit. This follows upon the steps taken in the May 1985 Budget to reduce the child tax exemption. The Committee is concerned about the effect of this proposal on large families.

2. Removal of the tax recognition of dependent children over 18 except for those who are infirm, and introduction of a tuition and education credit. The Committee feels these changes go too far.
3. A reduction in the "turning point" family income level above which the existing child tax credit is phased out. This is a byproduct of conversion of several tax deductions to tax credits, and the Committee regards it as undesirable.
4. A progressive tax on family allowances because the exemption is replaced by a tax credit. The question arises as to which parent should report children as dependants.
5. The net income allowed a dependant without a reduction in the tax credit for the supporting relative is set at \$500 for all dependants. This threshold is too low.

The Child Tax Exemption Credit

The conversion of the child exemption to a credit has been welcomed by all as a progressive step. However there has been concern about the level of the credit, at \$65 per child. This level represents a confirmation of the policy of the May 1985 Budget which reduced the child exemption to the same level as family allowances, thus offsetting income taxes on the allowances. The credit goes further, however, in that it does not offset the tax on family allowances for a parent with income taxable at the 26 or 29 per cent federal rate.

The Committee feels that such changes would be too great and too rapid for large families. It therefore proposes that the federal child exemption credit be doubled for the third child and subsequent children, providing approximately \$100 more per child, if the provinces followed the federal lead.

Such an increase in the proposed tax credit would provide some relief to large middle-income families who could otherwise experience a reduction (or complete loss) of the refundable child tax credit, and whose gains from personal income tax reform would be relatively small. It would also provide relief to large families with relatively low taxable income. However, its effect in alleviating poverty would be restricted if the increase in benefits were not extended to families with no taxable income.

The Committee proposes that the government make the increase in the credit refundable. The refund, to be made by the federal government, would be \$100 per eligible child to reflect the value of the credit for federal and provincial taxes combined. As a mechanism, a top-up in the refundable child tax credit for third and subsequent children in families with incomes below the taxable threshold is suggested. This minor complication in the tax system would aid in concentrating benefits where they are most needed.

The cost of such a measure would be moderate, in the order of \$55 million for the federal government, including the refundable portion. The cost to be provinces (excluding Quebec) would be \$17 million. About 600,000 families would benefit.

Therefore, the Committee recommends:

3. That for the third and each subsequent child under age 19 a taxpayer claims as a dependant:

- a) the taxpayer be given an additional exemption credit of \$65;
- b) this additional credit be made refundable in the form of a top-up of the federal refundable child tax credit of up to \$100 per child. This top-up is reduced by the portion of the additional exemption credit that is used to reduce federal tax payable to zero;
- c) that the government negotiate with the province of Quebec to provide an equivalent tax reduction to taxpayers with eligible children in that province.

Dependent Children of 19 Years of Age and Over

The White Paper proposes drastic changes in tax support for dependent children and students over 18 years of age. Those over 18 will be regarded as adults who can be claimed as dependants by others only if they are infirm. A credit of \$250 for infirm dependent children over 18 years of age will replace the current exemption.

The exemption for dependent children aged from 18 to 21 will be eliminated, as well as the exemption for children over 21 who are studying full-time at colleges or universities. This exemption was projected to have a value of \$1,000 in 1988. A single parent, however, will lose the equivalent-to-married exemption for a dependent child over 18, unless he or she has another dependant eligible for the new equivalent-to-married credit.

To replace these exemptions, the White Paper proposes a new credit for tuition fees and education expenses that can be transferred to a supporting spouse, parent or grandparent. The credit will be \$10 per month of full-time attendance at a designated educational institution, plus 17 per cent of tuition fees paid in the calendar year, up to a combined maximum of \$600 per year. The ample transferability feature makes it highly likely that the full cost of tuition fees and allowed education expenses will be credited against federal taxes.

In addition, persons over 18 years of age qualify as adults for the federal sales tax credit. This credit, introduced in 1986 with a rate of \$50 per adult with a net income under \$15,000, will be raised to \$70.

The combined effect of these changes is a shift away from tax assistance based on age and dependency status to tax assistance for the cost of post-secondary education. It is by no means simple to work out the impact on the group affected, since so many changes are made at once. This may well be a major reason why the Committee has received few representations on these matters.

Very early in its examination of the White Paper, the Committee observed that many children are still in high school in the year in which they reach the age of 18 and according to the White Paper proposals these children would not be recognized as dependants. Depending on the family situation this could mean a sharp reduction in benefits at a time when the child is evidently still a dependant. An announcement by

the Department of Finance dated August 31, 1987, indicates that in the year in which a person turns 18 he or she is still regarded as a child under 18 for the refundable child and sales tax credits and the dependant and equivalent-to-married tax credits. In the view of the Committee, this announcement deals with the problem in a satisfactory manner.

The Committee feels, however, that tax assistance is too drastically curtailed for those at ages 19 to 21 who for whatever reason are not self-supporting nor in post-secondary schools. Lack of opportunity in high-unemployment areas, or difficulty in choosing or adjusting to full participation in the labour market may force people to remain dependent on parental support after their high school years. Single parents could suffer a major setback because of the elimination of the equivalent-to-married exemption for a child over 18.

To assist these young people and their supporting parents, and to mitigate the negative effects of tax reform on this group, the Committee proposes that a dependant tax credit be made available as an option for children until and including the year they become 21 years of age. The amount of the tax credit should be \$130, as it replaces the current exemption which is twice as large as the exemption for children under 18. The equivalent-to-married credit should also be available for dependants up to age 21. According to another proposal by the Committee, these credits should be reduced by 17 per cent of income of the dependant in excess of \$1,000.

The Committee recognizes that transferability of the tuition and education credit will provide tax assistance to many students that is generous compared to that under current rules. Therefore the Committee does not want to extend the dependant tax credit to students who elect to transfer the unused portion of their tuition and education credit to a supporting parent. The student has a choice, and the Committee estimates that most students paying normal tuition fees will prefer to avail themselves of the transfer of the tuition and education credit and forgo the dependant tax credit. The Committee feels that all persons over 18 years of age, including those who elect to use the dependant tax credit, should be treated as adults for the purpose of the sales tax credit.

This proposal provides targeted assistance to a group that would lose tax assistance under the White Paper proposals.

Therefore, the Committee recommends:

- 4. That a parent be permitted to elect to report a child of 19 to 21 years of age as a dependant and claim a dependant tax credit of \$130 or, if he or she otherwise qualifies, the equivalent-to-married credit, and that by this election the child would lose the right to transfer to a supporting relative the unused portion of the tuition and education credit he or she may claim.**

The Refundable Child Tax Credit

The federal child tax credit will reach a value of \$524 per child by 1988. It is refundable, and it is reduced by 5 per cent of net family income in excess of a threshold

level which will reach approximately \$24,000 in 1988. The White Paper proposes no changes to the credit, but rather changes to the definition of net income. After reform, employment expenses, tuition fees and CPP/QPP and UI contributions are no longer deductible in calculating net income. Therefore families will have higher income on paper after reform, and those with net family income in excess of \$24,000 will receive a lower child tax credit.

The amount by which the credit is reduced depends on family income. Single-earner families claiming no tuition fees may have a maximum increase in net income of \$1,684, the sum of the maximum current deductions for employment expenses, CPP/QPP contributions, and UI contributions. Two-earner families may face an increase of twice this amount if their income is high. In any event they lose the \$500 employment expense deduction for both earners. Since the credit is reduced by 5 per cent of net income above the \$24,000 threshold, a single-earner family may lose up to \$84 in tax assistance for children. Two-earner families lose more than \$100, on average.

The Committee notes that the turning point above which the tax credit is phased out is partially indexed, so that the credit for families with income above the turning point is eroded more rapidly than other child benefits. The erosion of the partial child tax credit and the change in net income affect many families in widely varying circumstances. The group affected includes single-earner families with incomes of \$25,000 to \$30,000, for whom the overall impact of income tax reform is rather favourable. But it also includes families with somewhat higher incomes whose gains from personal income tax reform are small.

The Committee wishes to provide a one-time increase in the turning point to slow down the erosion of the child tax credit for families with incomes near and above the turning point. A sum of \$1,500 per family would roughly offset the effect of tax reform on single-income families, and go a long way towards neutralizing the effect on two-earner families. The cost of this measure is in the order of \$90 million.

Therefore the Committee recommends:

- 5. That the turning point net income level for the refundable child tax credit be increased by \$1,500 from \$24,000 to \$25,500.**

Taxation of Family Allowances

The new child tax credit of \$65 will be equivalent to a 17 per cent tax on the family allowance. The credit will offset taxes on family allowances for incomes in the 17 per cent bracket, but not for the higher income brackets. Thus the White Paper introduces progressive taxation of family benefits.

The Income Tax Act requires that the parent who claims the child tax exemption report the allowance. Generally the parent with the higher income will elect to do so because this income is subject to higher marginal rates than that of the spouse. After tax reform, evidently, it will generally be to the advantage of families to have the spouse with the lower income report the children.

To examine this more closely, assume a parent has income over \$55,000. If this parent reports family allowances, the allowances are taxed at 29 per cent. This rate

applies for a single parent or a couple with two incomes over \$55,000. If the spouse earned \$20,000, however, he or she would report the children and avoid the 29 per cent tax. If the spouse earned \$3,000 and reported family allowances, no tax would apply and the child tax credit would not be used, but the married credit claimed by the other spouse would be reduced by 17 per cent. Hence this couple will decide to have the high-income spouse report the allowance. These examples show that, under the new rules, family allowances will not be progressively taxed based on family income. Some couples will be able to engage in a limited form of income splitting which is largely prohibited for other forms of income.

Taxation of family benefits based on family income would probably be the fairest method, as already is done with respect to the child tax credit. However, extending the method to family allowances would require a new regime with its own brackets if not rates, this would be unacceptably complex. The Committee feels that fairness would be enhanced by making the spouse with the higher income report the children as dependants.

Therefore the Committee recommends:

- 6. That the parent with the higher income be required to include family allowances in income.**

The Income of Dependants

The White Paper proposes an income threshold of \$500 for all dependants. In the case of the married credit, the equivalent-to-married credit and the credit for dependants, the spouse or dependant would be able to report up to \$500 in net income. The credit is reduced by 17 per cent of net income in excess of \$500.

In 1986, the thresholds were \$520 for a spouse, \$2,760 for a child under 18 years old, and \$1,340 for a dependant over 18 other than an infirm child. The married exemption was reduced by income above the threshold, and the credit for dependent children was phased out by one half of income over the threshold. Clearly the White Paper proposes very little change in the treatment of income of spouses, and restricts drastically the income allowed dependent children.

The Committee regards a \$500 threshold for a dependant's income as unrealistic. Income just over \$500 should not be subject to a 17 per cent federal tax rate, as it effectively will be when the dependant tax credit is clawed back at this rate. A net income of only \$900 for a dependent child under age 18 should not completely eliminate the child tax credit.

The Committee proposes that the net income threshold for all dependants be raised to \$1,000. By raising the threshold for all dependants by the same amount, the simplicity achieved in tax reform of having one common income threshold is maintained. As well, in the case of the married and equivalent-to-married credits, the credit is reduced to zero at \$6,000, the income level corresponding to the basic personal tax credit.

Many dependants report income, and this measure has a greater cost in revenue forgone than any other recommendation in respect of dependants. Nonetheless the

Committee judges that the measure is justified. It is fair and provides a greater incentive to dependants to contribute to family income.

Therefore, the Committee recommends:

- 7. That a spouse or dependant can report up to \$1,000 in net income before the full value of the tax credit available to the supporting taxpayer begins to be reduced.**

Medical Expenses and the Disabled

The White Paper proposes to replace the special deduction for disabled persons by a federal tax credit of \$550 commencing in 1988. Also, the medical expense deduction will be replaced by a non-refundable federal tax credit of 17 per cent of allowable medical expenses that exceed 3 per cent of a taxpayer's net income.

The Committee welcomes tax credits generally because they provide the same amount of tax assistance irrespective of the income of the taxpayer. The impact on a taxpayer of the conversion of a particular exemption or deduction into a tax credit is limited by the size of the exemption that is replaced, and generally the impacts are modest. However, the credit for medical expenses can have great impact when expenses are very high. The Committee recognizes that there are some for whom the effects of tax reform are dominated by this element of the package. Those who have chronic, high medical expenses for care and appliances not covered by medicare or other insurance, and with incomes of their own or of supporting relatives in the middle or upper tax brackets, will experience a sharp loss in tax assistance. However the Committee is inclined to accept this and to approach the tax treatment of the disabled in a different way.

The Committee is impressed by the arguments for making it easier for the disabled to become full and equal members of the Canadian workforce. The Committee strongly supports the aspirations of the Coalition of Provincial Organizations of the Handicapped (COPOH) when they stated that "as disabled people we collectively aspire to be independent and to participate in the mainstream of society."

After examining the testimony respecting both the taxation and welfare systems as they affect the disabled, the Committee believes that greater efforts must be made by all levels of government, working in co-operation, to give the disabled the opportunity of becoming increasingly independent by helping them integrate more fully into the workforce. As pointed out by COPOH, "an unnecessarily dependent disabled person is a person who could have been a taxpaying citizen."

Among the problems identified by the witnesses is the fact that the disabled may have special expenses needed to make them employable, and that these are not tax-deductible. The option of granting the disabled the opportunity to deduct expenses needed to make them employable has a lot of appeal, but the Committee realizes that this will not be simple to develop and manage, because of the diverse needs of the disabled and the different provincial regimes of support for them.

The Committee was also made aware by such groups as COPOH that "the working poor" are disadvantaged by the interaction of the present tax and welfare systems. It

was noted that people with no income are entitled to full welfare benefits, which can include full assistance for the payment of such items as prosthetic devices and wheelchairs. On the other hand, a person with taxable income will be able to obtain some relief through tax credits. However, "the working poor" who do not earn sufficient to pay taxes are situated in a no-man's-land between these two groups, and cannot receive either the full benefits of "the welfare system", or those of the "income tax system". They are thus unduly penalized for working. The Committee was advised that the effective marginal tax on the first dollars earned by the "working poor" is 50 per cent as a result of the social assistance claw-back. Feeling that this is counter-productive, the Committee believes that welfare payments and related benefits for paid care, medicine and disability-related devices should be phased out more gradually with earned income.

The Committee also considered the question of enhancing employment opportunities for the disabled by encouraging small businesses to make their premises more accessible to the disabled. COPOH recommends that "a one-time-only" reasonable accommodation deduction of \$45,000 should be allowed to businesses that make capital expenditures to accommodate disabled employees, consumers or tenants. COPOH also noted that the 1986 United States tax reform package included such an "accommodation expense" of US\$35,000. The Committee is attracted to this recommendation but notes that comparable provincial grant programmes may exist, as for example in Ontario.

The Committee endorses the aspirations of the disabled to become more independent and participate fully in the workforce, and wishes to draw attention to the ideas that were put forward for reducing the obstacles that stand in the way. Without necessarily endorsing any of these suggestions without further examination, the Committee recommends:

- 8. That as a matter of urgency the federal government, in conjunction with the other levels of government, examine the tax and welfare systems to ensure that they do not act as a deterrent or barrier to the disabled who are or who wish to become members of the workforce.**

Charitable Contributions

For charitable contributions, the White Paper proposes a two-tier non-refundable federal tax credit. Contributions up to \$250 annually will give rise to a 17 per cent credit; a 29 per cent credit will apply to donations in excess of \$250.

Many witnesses expressed disappointment with the complexity of the proposal. Some of the briefs submitted to the Committee misinterpreted the proposal, and also expressed concern about the adequacy of tax support for charitable institutions after reform. The Committee has examined these submissions with care, and has finally decided to endorse the proposed credit.

Making the amount of tax assistance dependent only on the amount donated to charities and not on the income of the taxpayer certainly is an improvement in fairness. No longer will the tax system subsidize giving by the rich more than giving by middle- and low-income people. No longer will the government show a preference for one donor over another, apart from a preference for donors who give more!

Some witnesses expressed concern that the credit will reduce the tax incentive for charitable giving, but the Committee has concluded that this concern is not well-founded. In fact, the reduction in tax rates would reduce the tax assistance for charitable giving if contributions continued to be deductible. The new credit offsets the rate reduction and gives far more people than currently tax assistance at 29 per cent. According to calculations in the White Paper, the credit will cost \$50 million in forgone federal revenue, which means more tax support for charities.

The credit has little impact on people in the top income bracket. For them the 17 per cent credit for charitable contributions up to \$250 is lower than the value of a deduction, but for annual contributions in excess of \$250 there is no difference between a credit and a deduction. But for people with incomes in the bottom bracket, the 29 per cent rate for the credit means a substantial enrichment. Currently, there are some three-quarters of a million individuals in this bracket who give more than \$250 a year to charities for an average of close to \$1,000, and these people will see their taxes reduced. They and many others may be tempted to give more to charities as they find their cost of giving reduced. Taxpayers in the bottom bracket contribute more than one-third of total donations. By contrast, although there are proportionately more donors in the top bracket, their number is smaller and they contribute only one-quarter of the total. Indeed, charities in Canada are not very dependent on donations out of high incomes. The new credit reflects this reality by providing an equal incentive for giving across the entire income spectrum.

The \$250 threshold is arbitrary, and it has been suggested that it be lowered to \$100 or removed. Removal would be attractive as a simplification measure and would also help charities in fundraising, as tax assistance would be easier to explain. However, such a step has a cost to the government; moreover, the limited evidence available suggests that giving is not very sensitive to the rate of tax assistance so that charities would gain less than the government would lose. In the view of the Committee, giving is motivated primarily by concern for the cause.

A two-tier credit requires an extra calculation in tax filing for those who donate more than \$250. A single credit at an intermediate rate, say, 26 per cent, might be simpler but still requires a separate calculation. As it turns out, the two-tier structure can be integrated with the calculation of credits by grossing up the amount in excess of \$250 by 70 per cent, after which the 17-per-cent credit rate can be applied (29 is 170 per cent of 17). Thus, the added complexity seems manageable.

In their fundraising, charities naturally like to stress the tax advantage of giving. Currently, they advertise the fact that donations are tax-deductible, and after reform they might want to advertise the rate of tax assistance. Doing so will be complicated by the two-tier structure and provincial income taxes. Not everyone has immediately understood that the credit rates of 17 and 29 per cent reflect only federal taxes, and that tax assistance is much more generous when provincial taxes are factored in. Roughly speaking, the combined federal-provincial credit for charitable donations will be 25 cents per dollar up to \$250, and 45 cents beyond \$250. Thus a more precise indication of tax assistance can be given than was possible before reform.

CPP/QPP and UI Contributions

The White Paper extends the conversion of exemptions into credits to CPP/QPP and UI contributions. A non-refundable federal tax credit of 17 per cent will apply to contributions and premiums for all employees and self-employed taxpayers. The employer portion of contributions, including that of self-employed individuals on their own behalf, will continue to be treated as a deduction.

The Committee agrees that the conversion to credits is fair, since credits provide the same tax relief to all taxpayers. However, the Committee has concluded that the requirement for the self-employed to claim a partial deduction and a partial credit for their CPP/QPP contributions will lead to unwarranted complexity in the design of the T1 individual income tax return, and will make the preparation of the T1 particularly confusing for those self-employed individuals who also make CPP/QPP contributions in respect of employment during the year. Therefore, the Committee recommends:

- 9. That self-employed individuals receive a 17-per-cent non-refundable federal tax credit for their total CPP/QPP contributions in lieu of a partial deduction and a partial credit.**

Education Tax Credits

The White Paper has proposed that tuition fees will no longer be deductible, but will be replaced by a transferable tax credit equal to 17 per cent of fees. Furthermore, the \$50 per month education deduction will be replaced by a \$10 per month transferable credit.

The Federation of Independent Schools in Canada and the Ontario Association of Alternative and Independent Schools noted that the tax credits available for education exclude costs related to elementary and secondary schools. Although the Committee sympathizes with the concerns of those providing alternative forms of elementary and secondary schooling, the issue of school funding is within the realm of the provincial governments. Accordingly, it is not within the scope of the federal government's tax reform proposals to extend incentives to those taxpayers who wish to fund elementary or secondary school education privately.

The Canadian Association for Distance Education appeared before the Committee and addressed the issue that only students who are physically in attendance at classes on campus receive the education deduction of \$50 per month of study. Therefore, students who enroll full-time in correspondence courses are not eligible for the deduction. These students might be disabled or located in remote regions. The Canadian Association for Distance Education estimated that 200-300 full-time students enrol for correspondence courses. The Association remarked in its brief: ". . . the current regulations . . . are antiquated and do not recognize the changing patterns of education in Canada today."

The Committee heard testimony from representatives of two universities, Athabasca University and the University of Waterloo, who stressed the growing practice of long-distance education in Canada. To be equitable, they said, the proposed federal education tax credit should be available to all full-time students, and the criterion should be whether the student studies full-time, not whether the student

attends classes. The Committee also heard testimony requesting that the proposed federal education tax credit be extended to part-time students. However, part-time students are currently allowed a tax credit for tuition fees paid, and the Committee was not convinced that the education tax credit need be extended. Therefore the Committee recommends:

10. That the proposed federal education tax credit should be made available to all full-time students enrolled in designated institutions for post-secondary education.

Base-Broadening Measures

The Capital Gains Inclusion Rate and Dividend Income

The changes to the taxation of capital gains and losses proposed by the White Paper affect both the proportion of a capital gain included in income and the amount and calculation of the lifetime capital gains exemption. Proposed changes to the taxation of dividend income are also discussed in this section to show the relative merits of earning dividends and capital gains.

The *Income Tax Act* now requires a taxpayer to compute income by including one-half of capital gains and deducting one-half of capital losses. The gains or losses arise only when a taxpayer disposes of "capital property" as defined in the *Income Tax Act*.

The White Paper Proposals

Under the White Paper proposals, a taxpayer will be required to include two-thirds of net capital gains in income in 1988, with the proportion increasing to three-quarters in 1990. The higher inclusion rate is projected to raise the top effective federal tax rate on an individual's capital gain in excess of the lifetime capital gains exemption from approximately 17 per cent in 1987 to 19 per cent in 1988 and 1989 and 22 per cent in 1990 and subsequent years. The federal-provincial tax rates on capital gains will be higher and will vary from province to province as seen in Table 5, which is taken from one prepared by Clarkson Gordon, chartered accountants, for its publication, *Tax Reform in Canada*.

The timing would be a little different for most corporations, which will be required to include two-thirds of net capital gains income for taxation years commencing after June 30, 1988 and 75 per cent for taxation years commencing after 1989. These changes will increase the effective federal tax rate on gains from the current rate of 18 per cent to 18 2/3 per cent in 1988 and to 21 per cent in 1990 and subsequent taxation years. For taxation years that straddle July 1, 1988 or January 1, 1990, the appropriate proportion will be prorated based on the number of days in the year that fall on either side of the effective date. For Canadian-controlled private corporations that realize capital gains, the July 1, 1988 effective date will be advanced to January 1, 1988 to correspond with both the personal and corporate tax rate reductions on such income which are effective on that date. For such corporations with taxation years that straddle January 1, 1988, the inclusion rate will be determined by prorating the one-half and two-thirds inclusion rate based on the number of days in the taxation years on either side of that date.

Table 5

Top Marginal Federal-Provincial Tax Rates on Capital Gains

Province	Top Rate on Capital Gains ¹		
	1987	1988-89	1990
	(per cent)		
Ontario	26.27	29.87	33.60
Quebec ²	28.29	34.83	39.18
British Columbia	26.27	29.87	33.60
Alberta	26.55	30.29	34.08
Saskatchewan	27.87	31.86	35.84
Manitoba	29.03	33.02	37.15
Newfoundland	27.71	31.51	35.45
Northwest Territories	24.82	28.23	31.76
Yukon	25.16	28.61	32.19
New Brunswick	27.37	31.13	35.02
Nova Scotia	27.12	30.84	34.69
Prince Edward Island	26.86	30.55	34.37

¹ All years include surtaxes and other provincial taxes on income in effect or proposed at June 18, 1987.

² Rates for 1988 and future years assume that Quebec parallels federal capital gains changes.

Taxation of Dividend Income

The dividend gross-up and tax credit assist in the integration of corporate and personal taxes and attempt to prevent double taxation. Their object is to ensure that business and investment income earned by a Canadian-controlled private corporation bear approximately the same total tax as if the income had been earned directly by the shareholders. A taxpayer now grosses-up taxable dividends from taxable Canadian corporations by one-third and claims a dividend tax credit of 16 2/3 per cent of the grossed-up dividend.

The White Paper proposes to reduce the dividend gross-up to one-quarter. This change will in turn reduce the dividend tax credit to 13 1/3 per cent of the grossed-up dividend, because the credit will remain at two-thirds of the gross-up. The dividend tax credit will adequately compensate a shareholder of a Canadian-controlled private corporation for a federal (12 per cent) and provincial (8 per cent) tax rate of 20 per cent on active business income.

Testimony of the Witnesses

Officials from the Department of Finance testified that it was "really a judgment call as to the appropriate inclusion rate" for capital gains and that a variety of considerations led them to an inclusion rate "somewhere between two-thirds and three-quarters." They in turn rejected the American approach of taxing capital gains in full

for three reasons: (a) the need to reward risk associated with holding capital property; (b) the reluctance to create too much of a difference between the effective rate of tax on dividends and capital gains, and (c) the need for some allowance for the fact that property was held for long periods of time, recognizing that some of the gain may be due to inflation. Mr. David Dodge, the Assistant Deputy Minister, Tax Policy and Legislation Branch, stressed that there was “no real magic” about the three-quarters as opposed to 70 per cent or two-thirds and that the three-quarters figure was chosen to “keep the tax rates as low as possible”. The move from two-thirds to three-quarters was expected to yield \$135 million in 1990 and was estimated to be worth “approximately half a point of rate reduction on the corporate side to prevent major revenue drains to the U.S. treasury.” The inclusion rate was also based on the Department’s belief in integration at the small business rate and that this number would result from the adoption of a 25-per-cent dividend tax credit and a 12-per-cent small business rate with an allowance for provincial tax.

Comments in various briefs on this subject and the testimony of witnesses were both laudatory and critical of the White Paper proposal on the capital gains inclusion rate. The Joint Securities Industry Committee on Tax Reform, for example, advocated limiting the increase to two-thirds. Mr. Donald Huggett, F.C.A., a consultant with Coopers & Lybrand, argued for maintaining the existing dividend gross-up and tax credit mechanism but conceded that the inclusion rate for capital gains could be advanced to two-thirds provided it was reduced by some inflation factor. There were also more extreme views. The Canadian Gift and Tableware Association argued for retention of the 50 per cent rate while the Consumers Association of Canada, for example, demanded the taxation of the entire amount of capital gains. The reasons put forward by the various groups for their differing views might be summarized as follows:

- The full taxation of capital gains will introduce simplicity and fairness into the tax system;
- The full or increased taxation of capital gains will distort debt-equity ratios and discourage investors from investing in new equity capital; and
- The full or increased taxation of capital gains is retroactive and taxes accrued gains that were previously only subject to a possible 50 per cent inclusion and moreover may be the product of inflation rather than real growth.

A number of witnesses supported the full taxation of capital gains only if these amounts were adjusted for inflation. Other witnesses such as the Joint Committee on Taxation of the Canadian Bar Association and the Canadian Institute of Chartered Accountants expressed concern about the proposed increase in the tax burden on realized capital gains, and urged the government to give serious consideration to provisions allowing for inflation adjustments to the cost base of assets. The Department of Finance officials cited various arguments for not indexing capital gains and expressed a reluctance to treat other types of yields such as interest differently from capital gains, even though in 1982, the United Kingdom adopted a system of taxing the non-inflationary component of a capital gain.

Finance officials also indicated that they had examined other concepts when considering increasing the capital gains inclusion rate to two-thirds. For example, they rejected the introduction of another Valuation Day concept to provide transitional relief and thus favoured simplicity at the expense of retroactivity and fairness. They also

declined to use an arbitrary holding period such as five years as a means of determining whether an asset is "capital property" based on their assessment of the difficulties with this method in the United States. American taxpayers have apparently recognized losses within the holding period to take advantage of fully deductible losses, and have held property beyond this time limit to ensure they will obtain capital gains treatment.

Observations of the Committee

The Committee recognizes the importance of base broadening in lowering tax rates, and it supports the proposed increase in the capital gains inclusion rate to two-thirds to ensure that there is little difference between the marginal rates at which dividends and capital gains are taxed. Projected top marginal rates for dividends and capital gains under the White Paper proposals are contained in Table 6, which was prepared by Clarkson Gordon, chartered accountants, for its publication *Tax Reform in Canada*.

Table 6

Top Marginal Federal Provincial Tax Rates on Dividends and Capital Gains

Province	Top Rate on Dividends ¹		Top Rate on Capital Gains ¹		
	1987	1988	1987	1988/89	1990
Ontario	35.71	30.26	26.27	29.87	33.60
Quebec ²	41.87	38.82	28.29	34.83	39.18
British Columbia	35.71	30.26	26.27	29.87	33.60
Alberta	36.74	31.26	26.55	30.29	34.08
Saskatchewan	38.99	33.24	27.87	31.86	35.84
Manitoba	40.11	35.75	29.03	33.02	37.15
Newfoundland	37.67	31.92	27.71	31.51	35.45
Northwest Territories	33.74	28.59	24.82	28.23	31.76
Yukon	34.20	28.98	25.16	28.61	32.19
New Brunswick	37.21	31.53	27.37	31.13	35.02
Nova Scotia	36.86	31.24	27.12	30.84	34.69
Prince Edward Island	36.52	30.94	26.86	30.55	34.37

¹ All years include surtaxes and other provincial taxes on income in effect or proposed at June 18, 1987.

² Rates for 1988 and future years assume Quebec parallels federal capital gains changes, but not the dividend gross-up and credit changes.

The two-thirds inclusion rate will also assist the government in simplifying the *Income Tax Act*. It will contribute to narrowing the difference in the tax base between capital gains and dividends and may eliminate the need for some 15 pages of complex anti-avoidance rules, which would be necessary to prevent the exploitation of such differences in the tax base.

The rates for various income tax brackets are set out in Table 7, which was prepared by Touche Ross, chartered accountants for its publication *Understanding Tax Reform - 1987 - Personal Tax Planning*.

Table 7

**Combined Federal and Provincial¹ Tax Rates on Investment Income
including Federal Surtax**

Taxable Income	1987	1988	1989	1990
	(per cent)			
\$27,501 to 36,952				
Dividends	17.0	24.2	24.2	24.2
Capital gains	19.1	26.5	26.5	29.8
\$36,953 to 55,000				
Dividends	27.2	24.2	24.2	24.2
Capital gains	23.0	26.5	26.5	29.8
\$55,001 to 63,347				
Dividends	27.2	30.0	30.0	30.0
Capital gains	23.0	29.6	29.6	33.3
\$63,348 and over				
Dividends	35.4	30.0	30.0	30.0
Capital gains	26.0	29.6	29.6	33.3

¹ Assumes a 50% provincial tax rate.

The Committee has concluded that the increase in the capital gains inclusion rate to two-thirds should be an interim measure only. Moving to an inclusion rate of three-quarters rather than 100 per cent is considered to be inappropriate because, as the previous tables show, the gap between the taxation of dividends and capital gains widens in 1990. The Committee also urges the government to reconsider the conclusions of the Department of Finance found in the November 1980 paper *A Review of the Taxation of Capital Gains in Canada*. In that paper, the Department concluded that various factors had prompted "no industrialized country" to provide a comprehensive inflation adjustment of capital gains or other investment or business incomes. The Committee appreciates that full inflation adjustments are difficult to justify when only partial indexation is found elsewhere in the *Income Tax Act*. However, although inflation adjustments may lead to some complexities and inequities, the Committee advocates taking another look at indexation as an alternative means of taxing capital gains, in view of the use and apparent success of this approach in the United Kingdom since 1982. Consequently, the Committee would advocate that the full amount of capital gains be included in income and the full amount of capital losses be deductible, and recommends:

11. That, as an interim measure only, the proportion of a capital gain or capital loss required to be included in computing an individual's taxable capital gain or allowable capital loss be increased from one-half to two-thirds for gains and losses realized in 1988 and 1989.

12. That in 1990, following a review of the subject of indexation of capital gains, the full amount of capital gains be included in income and the full amount of capital losses be deductible, provided such gains and losses are adjusted for inflation from the later of the date of ownership or January 1, 1972.

The Lifetime Capital Gains Exemption

Until the May 23, 1985 federal Budget, taxable capital gains were exempt from the income tax base only in limited circumstances. For example, gains from the disposition of a principal residence were not included in income. Furthermore, in its 1980 paper *A Review of the Taxation of Capital Gains in Canada*, the Department of Finance rejected the non-taxation of capital gains for a variety of reasons.

Nevertheless, in his May 23, 1985 Budget Speech, the Minister of Finance heralded the introduction of the lifetime capital gains exemption:

Individual Canadians will be granted a lifetime capital gains exemption of half a million dollars. All capital property will qualify for the exemption. The lifetime exemption limit will be phased in over six years beginning this year.

The full exemption will be available immediately for capital gains realized on the sale of farm property. Based on my consultations with the farming community, I believe this to be the most effective way to provide the necessary assistance to this vital sector of the economy.

This measure will encourage more Canadians to invest in small and large businesses. It will help Canadian companies to accelerate their return to a healthy financial position by attracting new equity investment. It will assist small businesses in raising capital to pursue new ideas and new directions. It will help raise capital for research and development.

Existing Quantitative Limits

Current legislation provides for a \$500,000 lifetime capital gains exemption limit for individuals resident in Canada throughout the year. For gains on qualified farm property, the full \$500,000 lifetime capital gains exemption limit commenced in 1985. For gains on all other capital property, the \$500,000 limit was to be phased in over six years and was scheduled to reach the \$500,000 level in 1990. The cumulative phase-in limits for net capital gains are as follows: 1987 - \$100,000; 1988 - \$200,000; 1989 - \$300,000; and 1990 - \$500,000.

One-half of capital gains net of capital losses in excess of the exemption limit are currently included in income. The alternative minimum tax calculation also requires the addition back into taxable income of the non-taxable half of a capital gain. Capital gains reserves claimed in respect of properties disposed of after 1984 are not eligible for the higher phase-in limits for the taxation years in which the reserves are included in income.

Existing Qualitative Restrictions

Gains realized on all capital property, as defined in the *Income Tax Act*, are eligible for the lifetime capital gains exemption. "Qualified farm property", as defined in the *Income Tax Act*, is eligible for the immediate use of the \$500,000 lifetime capital gains exemption. Qualified farm property is defined to apply to real property used by the individual taxpayer, his spouse or any of his children in the course of carrying on the business of farming in Canada. It also applies to property used by a corporation or partnership which is a "family farm corporation" or "family farm partnership". Real property is deemed to be used by an individual in the course of carrying on the business of farming in Canada if such property was used in the carrying on of the business in the year of disposition or in at least five years during which the property was owned by the individual, his spouse or child. Qualified farm property also includes a share of a "family farm corporation" or an interest in a "family farm partnership," which must use all or substantially all of its property to carry on the business of farming in Canada, and the individual owning shares of the corporation or an interest in the partnership must be actively engaged in the business. This test is also satisfied if the spouse or child of the individual has been actively engaged. The "actively engaged" test has no stipulated time frame, so that an individual could be actively engaged in the business for a short period to qualify for the lifetime capital gains exemption. An individual is also not required to own or hold the real property, shares or partnership for any stipulated period before qualifying to claim the lifetime capital gains exemption.

The White Paper Proposals on the Lifetime Capital Gains Exemption

The White Paper aims to impose additional quantitative and qualitative restrictions on the lifetime capital gains exemption. These proposed rules will reduce the maximum lifetime capital gains exemption to \$100,000 for all capital assets other than "qualified farm property" and shares of a "small business corporation," and will delay an individual's utilization of the lifetime capital gains exemption until cumulative net investment losses realized after 1987 have been offset. The \$500,000 lifetime capital gains exemption limit will be available for shares of small business corporations beginning in 1988. Yet capital gains from dispositions of shares of small business corporations that are being included in income after 1987 through the capital gains reserve mechanism will be eligible for the \$500,000 lifetime capital gains exemption where the shares have been disposed of after June 17, 1987.

Qualified Farm Property

Qualified farm property still remains eligible for the \$500,000 lifetime capital gains exemption, which is also referred to for convenience as the farm exemption. The definition becomes more restrictive for real property acquired by an individual *after* June 17, 1987 for it contains additional tests. Real property will not qualify *unless*:

- (a) it was owned by an individual, his spouse or child for at least 24 months prior to disposition; and
- (b) in at least two calendar years during which the property was owned, the gross revenues from the farming business for a fiscal period ending in the year in which the property was used exceed the net income of the taxpayer, his spouse or child from all other sources.

Real property owned by an individual and used by a “family farm corporation” or “family farm partnership” of which the individual, his spouse or child was a member will qualify only if the corporation or partnership used the property in the course of carrying on the business of farming in Canada for at least 24 months before disposition.

No changes are proposed to the rules dealing with the shares of family farm corporations or the interests in a family farm partnership.

Small Business Corporations

A capital gain on the disposition of a share of a “small business corporation” will be eligible for the \$500,000 (not \$100,000) exemption only where:

- (a) the corporation is a small business corporation at the time of disposition;
- (b) the shares are not held by anyone other than the taxpayer or persons related to the taxpayer throughout the 24 months immediately preceding disposition; and
- (c) more than 50 per cent of the value of the assets of the corporation have been used in an active business carried on by it primarily in Canada throughout the holding period.

For convenience, this Report refers to this \$500,000 exemption as the “small business share exemption”. Additional technical rules are proposed to deal with circumstances in which shares of one corporation are held by a holding company and the shares of the holding company are sold.

As defined in the *Income Tax Act*, a “small business corporation” at any particular time means a particular corporation that is a Canadian-controlled corporation all or substantially all of the assets of which were at that time:

- (a) used in an active business carried on primarily in Canada by the particular corporation or by a corporation related to it,
- (b) shares of the capital stock of one or more small business corporations that were at that time connected with the particular corporation (within the meaning of subsection 186(4) on the assumption that such small business corporation was at that time a “payer corporation” within the meaning of that subsection) or a bond, debenture, bill, note, mortgage, hypothec or similar obligation issued by such a connected corporation, or
- (c) assets described in paragraphs (a) and (b),

and, for the purposes of paragraph 39(1)(c), includes a corporation that was at any time in the 12 months preceding that time a small business corporation.

Cumulative Net Investment Losses

Under the White Paper proposals, individuals will be required to postpone claims for lifetime capital gains exemption until they have earned sufficient investment income to offset investment losses suffered through direct or indirect ownership of property. It would appear that the rationale for this cumulative net investment losses rule is that

individuals are required to pay taxes on all investment income to the point where there are no net tax subsidies for their investments before they can become entitled to the use of a lifetime capital gains exemption, another tax preference, to offset the gain resulting from the disposition of an investment.

After 1987, net taxable capital gains eligible for the exemption will be reduced in respect of other net investment losses deducted by the taxpayer in computing income for tax purposes. Investment losses are calculated on a cumulative basis. Cumulative net investment losses incurred after 1987 will reduce the portion of the capital gains eligible for the lifetime capital gains exemption for 1988 and subsequent years. At the end of the year, cumulative net investment losses are composed of the difference between the taxpayer's Investment Expenses for the year and prior years commencing after 1987 and the taxpayer's investment income for those years.

Investment expenses consist of the following items that are deducted in computing income for the year:

- (a) deductions, including interest, with respect to property that will yield interest, dividends, rent or other income from property;
- (b) carrying charges, including interest, with respect to an interest in, or a contribution to, a limited partnership or any other partnership or ownership arrangement where the individual is not actively engaged in the business;
- (c) the individual's share of deductions attributed to a resource flow-through share or relating to Canadian exploration and other resource expenses of a partnership or co-ownership arrangement where the individual is not actively engaged in the business; and
- (d) any loss for the year from the renting or leasing of real property owned by the individual or a partnership not otherwise included in investment expenses.

Excluded from investment expenses will be capital cost allowance claimed in 1988 in respect of a certified film production acquired in 1987.

Investment income consists of the following items included in income:

- (a) interest, taxable dividends and other income from property;
- (b) the individual's share of the income from a limited partnership or any other partnership or co-ownership arrangement where the individual is not actively engaged in the business; and
- (c) income for the year from the renting or leasing of real property owned by the individual or a partnership not otherwise included.

Summary of the Testimony and Briefs

Qualified Farm Property and the Farm Exemption

Various farming groups commented on the restrictions placed on the definition of "qualified farm property". For example, both the Saskatchewan Wheat Pool and the

Canadian Federation of Agriculture expressed concern that the property must be owned for at least two years preceding the disposition by the taxpayer, his spouse or child and that during this period, the owner must be a bona fide farmer. Therefore, these groups recommended that the Farm Exemption be available to a bona fide farm operator or a farmer who has operated the farm unit for any five years prior to disposition regardless of whether the farm unit is later rented to and farmed by persons other than family members.

The Small Business Share Exemption

Some groups, such as the Canadian Organization of Small Business, criticized the scope of the small business share exemption and the consequent lack of neutrality that will exist between incorporated and unincorporated small businesses. Although most sales of small business involve the disposition of assets rather than shares, a vendor will only be permitted to sell shares rather than assets used in an unincorporated business to take advantage of the small business share exemption or the \$100,000 lifetime capital gains exemption. Incorporation of a business would first be required to enable an individual to effectively sell the assets of a proprietorship or partnership.

Cumulative Net Investment Loss Rules

Of the changes affecting the calculation of the lifetime capital gains exemption, the cumulative net investment losses rules attracted the most criticism. The adverse comments came principally from interest groups involved in certain sectors of the economy (e.g., resources and film) who concluded that the after-tax return from an investment in such tax-favoured instruments as flow-through shares or films would decline significantly if investors were unable to utilize the lifetime capital gains exemption.

The Lifetime Capital Gains Exemption Limit

A number of social policy groups such as the National Anti-Poverty Organization and the National Council of Welfare advocated the elimination of the lifetime capital gains exemption because of the perceived advantage it affords wealthier Canadians. Professional groups also supported such views. For example, the Institute of Chartered Accountants of British Columbia stated that the lifetime capital gains exemption is "poor tax policy" because "the potential deduction is not a material influence on investors making new investments (with the exception of flow-through shares)" and "has resulted in a significantly more complex tax system with the addition of anti-avoidance measures required to block perceived abuses of the deductions". In contrast, the Joint Securities Industry Committee on Tax Reform recommended that the \$500,000 ceiling also be retained for the shares of listed Canadian companies because the lifetime capital gains exemption "has been an important factor in encouraging Canadians to purchase record amounts of equity capital of Canadian business" which has "contributed importantly to growth and job creation in the Canadian economy".

Adequacy of the White Paper Proposals

The Committee recognizes that the lifetime capital gains exemption has contributed significant complexity to the tax system and has necessitated the

introduction of many anti-avoidance rules. Nevertheless, on balance, the Committee has concluded at this stage that the lifetime capital gains exemption does provide an inducement for Canadians to be entrepreneurial and to invest their capital in new and risky ventures and should be maintained. Yet, to prevent the misuse of the lifetime capital gains exemption, the Committee endorses the White Paper proposal to cap the lifetime capital gains exemption limit at \$100,000 of cumulative net capital gains arising on the disposition of most forms of capital property.

The Committee also agrees with the comments of Mr. Allan Short, Assistant Director Legislation of the Department of Finance, to the effect that the \$500,000 lifetime capital gains exemption limit provides “a fairly sizeable recognition of the importance the government attaches to the small business and agricultural sectors.” Subject to further comments on the adequacy of the proposed rules dealing with qualified farm property and small business corporations, the Committee recommends that the the farm exemption and the small business share exemption limit of \$500,000 be available at this stage for cumulative net capital gains arising on the disposition of these types of capital property.

Bearing in mind that the purpose of the small business share exemption is to afford relief to small business corporations, the Committee rejects the suggestion that a \$500,000 lifetime capital gains exemption limit should extend to shares of all corporations because of the potential revenue loss to the government.

The Farm Exemption and Rules for Qualified Farm Property

The Committee is of the view the proposed changes do not go far enough to prevent the abuse of the farm exemption. If the proposed rules were enacted, individuals could carry on the business of farming for a limited two-year period before selling real property. Consistent with the stated purpose of the rule to restrict the farm exemption to bona fide gains with respect to farm real property and preclude speculators from farming for one year and then taking the exemption, the Committee suggests changes that will require the active participation of an individual or an immediate family member in the Canadian farming business. These suggested changes should ensure that it should be irrelevant whether the farming business is owned directly or indirectly, provided the ownership interest is held for any five-year period immediately before the year of disposition, and the business is actively carried on at any time before disposition for a total of five years, which need not be consecutive. Accordingly, the Committee also advocates changes to the existing rules dealing with the characterization of shares of family farm corporations or family farm partnerships to ensure that gains resulting from the ownership of a direct or indirect interest in a farming business are treated equally.

The Committee also recognizes that a taxpayer may be able to multiply the use of the farm exemption within a family unit by having the taxpayer first transfer a direct or indirect ownership in the farm property or farming business to his children on a tax deferred or rollover basis in anticipation of a sale of the whole property or business to a third party. The Committee suggests that it may be appropriate for the government to review whether the rollovers permitting the inter vivos transfer of direct or indirect interests in the farm property or farming business should be available if the principal purpose of the rollover is to enable the transferor's family to obtain the benefit of farm exemption when the transferor could not have obtained the same benefit.

Small Business Corporations and the Small Business Share Exemption

The Committee has concluded that the proposed rules affecting the small business share exemption are too broad because they reward passive ownership of an enterprise. They also extend the exemption to shareholders of large Canadian-controlled private corporations who do not require the \$500,000 lifetime capital gains exemption limit to risk their capital. Consequently the Committee has determined that the small business share exemption limit should only be available for the owner manager who is “actively engaged or employed” in a business carried on by a corporation that meets a particular size test. The Committee recognizes that there are many different size tests or caps that may be appropriate. The size test of \$35,000,000 of assets suggested by the Committee is found in the Income Tax Regulations and is now used as a benchmark in connection with investments in small businesses by statutory deferred income plans as a means of also increasing their foreign property holdings. Other size standards exist in the provincial stock savings and venture capital legislation as well. Although the Department of Finance officials criticized “size caps” in their testimony because they encourage corporations to “stop growing”, the Committee has concluded that the small business share exemption is intended to induce persons to invest in risky ventures and that an incentive as generous as \$500,000 should not be awarded once a corporation has reached a certain size. The Committee therefore recommends the adoption of rules that stress the active involvement of the owner manager in an active business for a minimum of five years prior to the disposition of shares of the corporation that carries on such a business. The Committee recognizes that some businesses may be carried on in an unincorporated form either as a proprietorship or partnership prior to incorporation and believes that the vehicle for carrying on business should not disentitle the owner manager from claiming the small business share exemption. Accordingly, the Committee believes that the period during which the owner manager was actively engaged in carrying on the business in its unincorporated form should count towards determining the five-year period. The Committee is also concerned about the need for rules that would prevent a corporation from qualifying as a small business corporation if it also could not be characterized as a family farm corporation. Consequently, the Committee advocates the specific exclusion of a corporation from carrying on the business of farming in Canada from the definition of small business corporation for purposes of determining an individual’s entitlement to the small business share exemption.

The Committee also acknowledges that the small business share exemption will create a bias towards selling shares rather than assets even though the purchaser in many cases would prefer to acquire the assets for tax and commercial reasons. Nevertheless, the Committee recognizes that the small business share exemption will enable proprietors or partners of unincorporated businesses to gain access to an exemption limit of \$500,000 rather than \$100,000 or perhaps nil, in some cases, by first transferring the assets on a tax-deferred basis to the corporation prior to selling the shares. The Committee believes that the costs associated with the incorporation of the business will not impair the vendor’s desire to incorporate. Nonetheless, the Committee shares the concerns of witnesses such as the Canadian Organization of Small Business that certain asset sales should also be subject to the lifetime capital gains exemption. It also urges officials of the Department of Finance to attempt to formulate solutions in this area and suggests that, as a start, eligible capital property should be treated as depreciable property to at least enable resident Canadian individuals to gain access to

the \$100,000 lifetime capital gains exemption on assets that most likely appreciate in value such as goodwill. This topic is canvassed further in the Report in the section on eligible capital property.

The Cumulative Net Investment Loss Rules

The lifetime capital gains exemption is deductible from taxable income. The deduction enables a taxpayer to reduce cumulative net taxable gains once the taxpayer has also deducted any available capital loss carry-over and any allowable business investment losses claimed in the taxation year. The White Paper proposes to further reduce a taxpayer's claim for the lifetime capital gains exemption by the amount of cumulative net investment losses claimed after 1987 for tax purposes. Its stated purpose is "to reduce tax shelter possibilities and to better match deductions with tax-exempt income." Consequently, a person without investment income who deducts interest expenses on money borrowed to buy shares will be required to delay a claim for the lifetime capital gains exemption on the sale of the shares or other capital property until an equal amount of taxable income is earned from all other investments. The calculation of the cumulative net investment losses is done in two stages. The first requires a calculation of various elements within the definitions of investment income and investment expenses. The second involves the determination as of December 31 whether the investment expenses exceed the investment income.

The Committee endorses the cumulative net investment losses concept because it prevents an individual from deriving a net economic benefit through the tax system. This could occur because interest expenses are deductible in full even though capital gains derived from the use of these borrowed funds may be exempt from taxation through claims for the lifetime capital gains exemption. The Committee appreciates the role that the cumulative net investment loss provision should play in limiting the proliferation of tax shelters.

The Committee is sensitive to representations made about the adverse impact of the cumulative net investment losses on the after-tax return of certain investments. Nevertheless, it considers that the availability to investors of other tax incentives such as unrestricted capital cost allowance (for MURBS) or current deductions (Canadian exploration expenses), sufficiently enhances the attraction of an investment without unduly distorting the economics of the investment. To the extent that the Committee does recommend the elimination of certain tax incentives from the cumulative net investment losses rule, it does so only as a means of affording transitional relief to certain taxpayers or correcting structural flaws within the cumulative net investment losses formula resulting from the adoption of the "pooling" concept. Nevertheless, the Committee believes that certain elements within the cumulative net investment losses formula may lead to a retroactive denial of the lifetime capital gains exemption. Assets acquired in 1987 prior to the proposal of the cumulative net investment losses formula were not expected to affect the lifetime capital gains exemption available upon the disposition of another capital asset.

The Committee is of the view that the deduction of certain costs in 1988 and subsequent years that relate to the costs incurred for acquisition of property in 1987 and previous years should be excluded from the calculation of cumulative net investment losses. To the extent that the exclusion of these amounts would prove too

awkward and would unduly complicate the *Income Tax Act*, the amounts might then remain in the calculation. Ideally, all capital cost allowance relating to capital assets that were acquired prior to June 18, 1987 should be excluded from the cumulative net investment losses calculation. Yet, for simplicity, the Committee restricts its remarks on exclusion from the cumulative net investment losses exclusively to certain resource expenses such as Canadian development expenses and to capital cost allowance relating to MURBS and Canadian certified productions that can contribute to investment expenses. The income from these investments might also then be excluded from investment income.

The Committee also urges the Department of Finance to consider other technical matters such as the need to include the recapture of capital cost allowance and terminal losses in cumulative net investment losses and the ability of taxpayers to readjust their cumulative net investment losses balance created in statute-barred taxation years. This latter adjustment would be required in the event that Revenue Canada later determined that an investment should have been classified as a business asset.

The Committee recognizes that, ideally, the cumulative net investment losses concept should be calculated with reference only to the asset to which it relates. Consequently, the deduction of a lifetime capital gains exemption with respect to a particular asset would only be deferred until the cumulative net investment losses created from the acquisition, ownership, use and disposition of that asset is exhausted. Nevertheless, the Committee appreciates that to “quarantine” or “ring fence” an investment would only increase the complexity of the tax system and could prove difficult for Revenue Canada to administer. Therefore, by broadening the cumulative net investment losses calculation to embrace flows from the direct and indirect ownership of all investments, the Department of Finance is demonstrating that equity has been sacrificed for simplicity.

The Committee, however, realizes some of the problems inherent in the pooled calculation of investment income and expenses and that the cumulative net investment losses formula, as presently designed, leads to some arbitrary results and to some inequities. As the following example illustrates, the cumulative net investment losses rule, as drafted, may force taxpayers to order their investment affairs in a tax-driven fashion, contrary to one of the White Paper’s precepts to prevent distortions in economic decisions. For example, a taxpayer may have acquired real estate in 1988 that has appreciated substantially in value by 1990. In 1989, the taxpayer may have borrowed funds to acquire shares that reflect an accrued loss in 1990. A sale of the real estate may not entitle the taxpayer to claim the lifetime capital gains exemption in 1990 because the debt service costs related to another asset, the shares, will have created cumulative net investment losses at the end of 1989. Had the taxpayer sold the real estate before acquiring the shares, he would have been able to claim lifetime capital gains exemption with respect to the gains realized on the sale. Although this example shows that cumulative net investment losses should be calculated by “quarantining” or “ringfencing” investments, the Committee agrees with the Department of Finance’s adoption of the simpler approach to the calculation of cumulative net investment losses at the expense of fairness and “rough justice.”

Recommendations on the Lifetime Capital Gains Exemption Proposals

Qualified Farm Property and the Farm Exemption

13. That the definition of “qualified farm property” be amended so that it include only real property that is: (a) owned by the individual; (b) used prior to the year of disposition for a minimum of five years which need not be consecutive; and (c) used by the individual, his spouse, or any of his children actively engaged in carrying on the business of farming in Canada or by a “family farm corporation” or a “family farm partnership.”
14. That the definition of “qualified farm property” be amended so that it include a share of capital stock of a “family farm corporation” or an interest in a “family farm partnership”: (a) owned by the individual; and (b) in which the individual, his spouse or any of his children was actively engaged in the business of farming carried on by the family farm corporation or family farm partnership for a minimum of five years, which need not be consecutive prior to the year of disposition.

Small Business Corporations and the Small Business Share Exemption

15. That a gain realized on the disposition of shares of a small business corporation qualify for the \$500,000 lifetime capital gains exemption only if: (a) the individual, who disposes of the shares, or the deceased spouse was actively engaged in the business, (whether prior to incorporation as a proprietor, partner or employee, or after incorporation) for a minimum of five years prior to the year of disposition which need not be consecutive; (b) the Small Business Corporation was not engaged in the business of farming; and (c) the total assets of the Small Business Corporation and all corporations associated therewith (determined in accordance with generally accepted accounting principles on a consolidated or combined basis, where applicable) do not exceed \$35,000,000, the limit to which statutory deferred income plans are subject when seeking to increase their foreign property holdings by investing in small business securities.

Cumulative Net Investment Losses

16. That, as proposed by the White Paper, after 1987, net taxable capital gains eligible for the lifetime capital gains exemption be reduced by other investment losses calculated through a cumulative net investment losses formula and deducted by the taxpayer in computing income for tax purposes.
17. That the definition of investment expenses in the cumulative net investment losses formula: (a) exclude any expense incurred before 1988 and amortized after 1987 as a result of property acquisitions made before 1988, such as a Canadian development expense, Canadian oil and gas property expense and capital cost allowance claimed on a multiple

unit residential building; and (b) include terminal losses realized on the disposition of depreciable property acquired after 1987.

- 18. That the definition of investment income in the cumulative net investment losses formula include capital cost allowance recaptured into income in respect of depreciable property acquired after 1987.**

The Investment Income Deduction and the Elderly

The Committee heard from a number of witnesses representing the senior citizen community. Their major concerns were the removal of the \$1,000 investment income deduction, taxation of capital gains and indexation. Many expressed the view that senior citizens will not be better off after tax reform.

The Committee has examined the specific points raised in the context of the impact of the personal income tax reform proposals as a whole. The elimination of the investment income deduction is not an isolated move and, placed in the context of other proposals, it proves to be not a serious loss to the elderly.

As over 70 per cent of taxfilers aged 65 and over will have income in the bottom bracket in 1988, the level of the new tax credits and the replacement of several rates by a common 17 per cent rate is of particular concern. The proposed personal basic tax credit of \$1,020 is set at a level so as to offset the elimination of the 6 per cent and 16 per cent lowest federal tax rates, and provides a cushion for the loss of the employment deduction and the investment income deduction. The large majority of taxpayers in this income range will therefore see their income taxes reduced as a result of the White Paper proposals.

As for the elderly, few are affected by the elimination of the employment expense deduction. Seniors in the bottom tax bracket will also benefit from the new age credit of \$550 that compares favourably with the current exemption, whose value would be \$455 at the 17 per cent rate. The pension income deduction is also continued, in the form of a credit of 17 percent for income up to \$1,000, roughly equivalent to the current deduction. The combined effect is that lower income seniors will pay less tax as a result of reform.

A number of seniors with low incomes will see their taxes reduced to zero. With the enhanced personal credits, the taxable income threshold is increased, especially for seniors. Before tax reform the typical single senior with public pension benefits and bank interest could earn \$7,900 (ignoring guaranteed income supplements) before paying federal tax. After reform income up to \$9,300 will be tax-free. Similarly, a married senior couple could earn \$14,200 tax-free before tax reform compared to \$17,500 post-reform. For those with eligible pension income the thresholds are higher both before and after reform.

Senior citizen representatives advocated full indexation of the tax system and social program benefits. While full indexation may be desirable, seniors are less affected than some other groups of taxpayers, because the benefits most of them receive outside the tax system (OAS and CPP) are fully indexed. The issue of full indexation is discussed in more detail elsewhere in this report, as is capital gains taxation.

To sum up, the Committee judges that personal income tax reform will not increase taxes for low-income elderly. The Committee accepts the claim of the White Paper that personal income tax will be reduced for almost 9 out of 10 Canadians over age 65.

Automobile Expenses

Revenue Canada and the Department of Finance have long been concerned that some expenses deducted as a cost of business actually represent personal consumption. Automobile expenses present an obvious problem for tax treatment. The same car that is used by a professional to visit clients or by a salesperson for business purposes can also be used for a family vacation. And while on the way to visit a client or to sell a piece of real estate or an insurance contract, the professional or salesperson may run a personal errand, so that it is difficult to disentangle the business and personal use of an automobile. Rules are now in place that attempt to exclude some personal use from the allowable deductions for automobile expenses, but the problem remains.

The White Paper, therefore, proposes tightening up these rules:

Deductions for depreciation and lease costs on automobiles will be limited to the first \$20,000 of the cost of the car, and limits will apply to deductible financing charges. Further reductions in allowable claims by employed and self-employed individuals will apply unless the automobile is used all or substantially all (i.e., at least 90 percent) for business purposes.

At the hearings before the Finance Committee, officials from the Department of Finance suggested that the proposed rules for automobile expenses would add approximately \$150 million to federal government revenue in 1988. (The White Paper estimates that the revenue gain in 1988 from reduced deductions for home offices, business meals and entertainment, and automobile expenses would be \$230 million.)

The proposed change in the treatment of automobile expenses attracted more complaints from those submitting briefs to the Finance Committee than any other aspect of tax reform. More than 90 briefs addressed the issue. The two areas of greatest concern were the definition of what constitutes "substantial use for business purposes" and the \$20,000 limit on capital cost allowance or leasing costs.

Those who use their automobiles 20 per cent to 89 per cent of the time for business purposes face the greatest changes in the handling of automobile expenses. For this group, only one-fifth of the maximum capital cost allowance, lease costs and interest charges may be claimed. In addition, this group may deduct none of the ordinary charges for insurance, licensing and parking (at the regular place of business). This group may, however, deduct their full business percentage of all other operating costs (fuel, maintenance and repairs).

In contrast, those with business use equal to or greater than 90 per cent, may claim as a deduction the proportion of the maximum capital cost allowance, lease costs and interest charges as well as the costs of insurance, licensing and parking and all other operating costs that represents the business use. Those with business use less than 20 percent may also deduct the proportion of the maximum capital cost allowance, lease

costs and interest charges, as well as all other operating costs that represents business use, but may not claim any deduction for the costs of insurance, licensing and parking.

The Finance Committee agrees that expenditures on personal consumption should not be included in a business deduction. The 90 percent rule and other restrictions on allowable automobile expense deductions, however, appear to go to the other extreme and disallow some legitimate business expenses. The Canadian Real Estate Association presented the basic argument against the new rules:

The automobile is a necessity to a real estate agent. The capital cost or lease payments, financing costs and insurance are as much a business expense as office rent is to an employer who provides office accommodation.

As an alternative the Committee suggests that allowable automobile expense deductions continue to be based in all cases on the proportion that represents business use. However, the Committee has concluded that a fairer and simpler way to address the issue of personal consumption in automobile expense claims is to reduce the calculated amount of the deduction by a specified sum. The Committee suggests that the reduction should be \$500 for a full year. Therefore, the Committee recommends:

- 19. That the proposed 20-90 per cent rule not be adopted, and in its place the taxpayer may claim as a deduction the proportion of allowable expenses that represents business use less \$500. Allowable expenses include capital cost allowance and interest on money borrowed to acquire the vehicle, or lease costs, up to the maximum amounts proposed in the White Paper; and the actual cost of insurance, licensing, parking and all other operating costs.**

The second major criticism of the treatment of automobile expenses concerned the \$20,000 limit on the cost of an automobile for claiming capital cost allowance or lease costs. Several briefs and witnesses before the Committee claimed the limit was arbitrary and inadequate and suggested raising it to \$30,000 or \$35,000. The Committee considered the arguments for a higher limit but was not convinced by them. A limit in the order of \$20,000 ensures that ordinary taxpayers are not helping to foot the bill for the business use of a luxury automobile.

The Canadian Automotive Leasing Association (CALA) provided estimates of the current cost of suitable business automobiles. For fleet cars, CALA concluded: "Replacement costs for suitably equipped mid-size business cars will average \$19,657 for the 1988 model year." The sample of cars included the Chrysler New Yorker, Ford Taurus GL, Pontiac 6000 and Ford Aerostar Passenger Van; the suitable equipment included air conditioning, AM/FM radio, cruise control, four doors and a six-cylinder engine. The CALA survey showed costs close to the \$20,000 limit for fleet purchases. Individuals, of course, generally pay more for an automobile than a company buying a fleet of cars. The average "non-fleet price" for the CALA sample was \$21,157, a price that included freight, pre-delivery inspection, dealer mark-up, sales tax and license fee.

Several briefs brought up the problem of regional variations in automobile costs, and the Federation of Automobile Dealer Associations suggested that "the \$20,000 limit is really a vehicle price limit of about \$18,000 when freight, pre-delivery expenses and provincial sales tax are taken into account." The issue of freight is not considered a

problem, however, given the equalization policy followed by most automobile manufacturers in Canada. Many briefs also expressed concern that the limit was not indexed. The Committee concluded that the regional disparities resulting from different provincial sales taxes across Canada are a valid concern.

Considering all these factors, the Committee recommends:

- 20. That the \$20,000 limit on the cost of a passenger vehicle for claiming capital cost allowance or lease costs be increased by the amount of the relevant provincial retail sales tax on a \$20,000 vehicle and that there be a regular review of the limit.**

Corporations and employees who drive an employer-provided automobile are also affected by the proposed changes. Corporations are subject to the \$20,000 cost limit and the related limit of \$250 per month for carrying charges. They must calculate the capital cost allowance separately for each vehicle instead of on a pooled basis as generally applies to the tax system. As pointed out in Chapter 11 of this Report, businesses face increasing complexity in the tax system as a result of the changing requirements for the tax treatment of automobile expenses.

Employees who drive an employer-provided automobile may face an increase in their taxable benefits because of the removal of the permitted reduction in the standby charge in respect of personal use of the vehicle. The standby charge is generally two per cent per month of the original cost of the automobile or two-thirds of the lease costs. Under the current system, this charge can be reduced if personal use is less than 1,000 kilometers per month — the extent of the reduction depends on the proportion of the 1,000-kilometre limit actually driven for personal use.

The White Paper proposes to eliminate entirely the ability of an employee to recognize a reduced standby charge when there is only incidental personal use of an employer-provided automobile. Considering that the annual standby charge is calculated essentially as 24 per cent of the original cost of the automobile with no adjustment for depreciation, the Committee has concluded that the proposed change goes too far and treats some legitimate business use as personal consumption. Therefore, the Committee recommends:

- 21. That the current system of allowing a reduced standby charge for an employee who drives an employer-provided automobile less than 1,000 kilometres per month for personal use be retained.**

Business Meals and Entertainment Expenses

Currently, business meals and entertainment expenses incurred for business purposes can be deducted in full, subject to their being reasonable in amount. However, in theory, if not in practice, every business meal or entertainment has an element of personal consumption. To that extent, there is an element of personal expense that should not be deductible.

The White Paper proposes to reflect the fact that there is a personal consumption benefit to a business meal or entertainment by limiting the deduction for business meals and entertainment expenses to 80 per cent of their cost. The limitation will also apply to

gratuities, cover charges, room rentals at a hotel or a resort to provide entertainment, and to the cost of private boxes at sports facilities. As well, it will apply to the cost of meals while travelling or attending a convention, conference, seminar or similar function. Similar rules have been adopted in Britain, Australia and the United States.

The Committee heard representatives from a large number of business groups on this issue, who felt that any personal consumption benefit to a businessperson in a meal or entertainment could be sufficiently addressed by existing provisions in the *Income Tax Act*. The Committee also heard from the Canadian Food & Restaurant Association which proposed that meals be deductible in full where the expense was incurred while travelling out of town, at a seminar or convention, or at a business meeting where the taxpayer was accompanied by a client or colleague.

The Committee agrees that there is an element of personal consumption in a deduction for business meals and entertainment expenses. Indeed, the Committee believes that a deduction of 80 per cent for certain entertainment expenses such as private boxes at sports events or room rentals at resorts is generous.

However, the Committee recognizes that where a meal expense is incurred at a convention, conference or seminar, or while travelling away from home overnight, there is no such personal consumption benefit since the taxpayer must consume a restaurant meal. Therefore, the Committee recommends:

- 22. That the proposed 80 per cent limitation on the deductibility of business meals and entertainment expenses be adopted but that the cost of meals while attending a convention, conference or seminar or while travelling overnight and out of town be fully deductible.**

Home Office Expenses

Under the current tax system, self-employed individuals may deduct from business income all expenses related to a home office used for business purposes. As part of the broadening of the tax base, the White Paper introduces restrictions on the home office deductions:

A self-employed person will be allowed to claim a prorated portion of expenses (such as rent, capital cost allowances and mortgage interest or operating costs such as heating, electricity or insurance) relating to his or her home office only if the space is used exclusively on a regular and continuous basis for the purpose of earning business income. To qualify, the home office must also either be the taxpayer's principal place of business, or be used on a regular basis for meeting clients, customers or patients.

The problem addressed by the White Paper on this issue is similar to the problem faced in the treatment of automobile expenses. Taxpayers should not be allowed to deduct as a business expense an expense for personal consumption. In general, the same groups that commented on automobile expenses also commented on home office expenses. Most of the concern of these groups, however, was directed at the change in treatment of automobile expenses.

Those affected by the restrictions, not surprisingly, would like to see the current treatment of home office expenses retained. There were two frequently expressed

objections to the proposed treatment. The first was that it would treat differently two taxpayers who have almost identical jobs and require identical office space and supplies — say, two insurance agents or two interior designers, one an employee and the other self-employed. The second is that the proposed rules do not allow for the vast distances that may have to be travelled by someone for business purposes. On this second point, the president of the Canadian Real Estate Association appeared before the Committee and explained:

The geographic make-up of Canada does not allow everyone in Canada to live within a reasonable distance of his main place of employment, and the way Canadians sell real estate it could mean that your main office could be 50 miles away.

One group that is certainly affected by Canada's geography are farmers, and they are of special concern to the Committee. Farms can be small, family-run operations in rural communities; although the house on such a farm may have no space devoted exclusively to earning business income, without the farmhouse there would be no farm.

The example of farmhouses highlights the need for clarification of the rules and definitions behind the new proposals. The White Paper attempts to ensure that the home office deduction will be allowed only where the home office is necessary to the conduct of business. Under current rules, some expenses for home offices that are incidental to the conduct of business can be deducted as a business expense.

The problem of the seemingly different treatment of individuals who perform almost identical work remains. As was brought out during the meeting with the Life Underwriters Association of Canada, there are important differences between employees and the self-employed, even when they appear to be doing the same work. The tax system should recognize these differences.

The White Paper gives examples of those who will be affected by the new treatment of home office expenses. Unfortunately, the examples do not cover several of the problems raised in the briefs or hearings (for example, those affecting farmers, authors, artists and interior designers). What the examples do bring out is that business people and professionals who use home offices for convenience will not be allowed a business deduction for these offices. If, however, a home office is the principal office or used on a regular basis for meeting clients, customers or patients the deduction will be allowed.

The Committee is in general agreement with the proposed change in the treatment of home office expenses. For the reasons given above, however, the rules and definitions need clarification.

Certified Canadian Productions (Films)

The White Paper proposes three changes that will reduce the special tax treatment of investment in films that are certified Canadian productions. First, the existing accelerated capital cost allowance would be reduced from 100 per cent to 30 per cent (calculated on a declining balance basis and subject to the half-year rule), but this capital cost allowance would remain available to offset income from all sources. Second, an additional capital cost allowance would be introduced to permit the

unrestricted deduction of the undepreciated capital cost of certified Canadian productions from the net income from such productions after claiming the regular rate of capital cost allowance. The additional capital cost allowance would be calculated without regard either to the half-year rule or to the proposed put-in-use rule. Third, the capital cost allowance claimed in respect of an investment in a film would be included in the calculation of the cumulative net investment loss which serves to postpone the ability of an individual to use the lifetime capital gains exemption.

The original transition period for implementing these changes was amended on August 31, 1987 by a Department of Finance press release (#87-128) which noted that the nature of film productions is not uniform across the industry. Hence, series productions will enjoy the benefits of the current capital cost allowance provisions provided certain conditions are met, as will other certified productions acquired in 1987 if principal photography is complete before July 1, 1988. Furthermore, investments in those productions will not trigger an inclusion in the proposed cumulative net investment loss provisions in 1988.

The public hearings held by the Committee provided a forum for representatives and employees of the industry and raised concerns about the reduction of the capital cost allowance rate. The press release of August 31, 1987 seems to have adequately addressed the industry's concerns for a longer transition period. Moreover, the proposed additional allowance, to increase the capital cost allowance which may be deducted against film income, was acceptable to the industry's representatives.

Industry representatives did, however, express concerns about the reduced capital cost allowance. First, the witnesses indicated that private investment would be reduced, as the investors' initial perception of a film investment would not compare favourably with other risky investment opportunities. Next, they noted that private Canadian funding is critically important in developing Canadian productions that are not controlled by the government through grants or by U.S. distributors through their investment. Third, the Committee heard that the industry is still in its infancy and continues to require government support, and that, in the industry's view, tax assistance for individuals is less of a burden on the government than direct grants. Finally, the industry believes that it contributes significantly to job creation in Canada. In summary, the industry argued for continuation of the current tax assistance for Canadian productions.

The Committee generally agrees with the tightening of the rules for film investors. It believes, however, that several changes are necessary to avoid an adverse effect on film investment and to be consistent with the government's policy of promoting an indigenous industry. A 30 per cent declining balance regime is too strict and does not reflect the reality of the film business.

At the risk of oversimplification, the life cycle of a film may be sketched as follows. Typically, major expenditures for a film are made in the first year of production. Editing and release of the film take place in the second year, and most of the film income from distribution in theatres and through video is earned before the end of the third year. There is normally very little income after the fourth year. A 50 per cent straight-line regime, subject to the half-year rule but without the put-in-use rule, approximates economic depreciation and better reflects the short life of a film. With

the 30 per cent declining balance regime, on the other hand, it would take eight years to write off 93 per cent of the cost of a film.

Therefore, the Committee recommends:

- 23. That the capital cost allowance rate for certified Canadian productions be set at 50 per cent on a straight-line basis and subject to the half-year rule. It is further recommended that the put-in-use rule not apply to certified Canadian productions.**

The White Paper also proposes that no limit be imposed on the deduction of capital cost allowance against income from certified Canadian productions. The Committee believes that this proposal is an appropriate incentive for the industry and should be adopted.

The Committee was concerned about the tax treatment of the income realized upon the disposition of an interest in a film or a unit in a partnership owning a film. The Committee heard evidence of taxpayers who invested in a film through a limited partnership, and deducted the cost of their investment by way of a partnership loss allocated to them, subsequently sold their partnership interest and were treated as having realized a capital gain. The Committee considers that an investor in a film intends to exploit the film in any practical manner and therefore the sale of the investor's interest in the film should give rise to taxable income, whether this is done directly or by selling a partnership interest. The Committee considers that capital gains treatment is not appropriate for a film investment. As a consequence, capital cost allowance claimed on a film should not be included in the calculation of the cumulative net investment loss.

Multiple Unit Residential Buildings

As an element of its general base-broadening thrust, the White Paper proposes to eliminate the tax incentive benefits of owning a multiple unit residential building, or MURB. The MURB program was introduced in 1974 by the government of the day to provide a direct incentive through the income tax system for taxpayers to invest in a particular type of residential housing. Although beneficial tax treatment ceased for multiple unit residential buildings in 1981, the tax status and related tax benefits of existing MURBs continued to be available to purchasers.

Under the current tax system, a taxpayer has the advantage of being able to create or increase the rental loss from a multiple unit residential building by claiming the maximum allowable amount of capital cost allowance.

The White Paper proposes to eliminate the status of a multiple unit residential building in the following manner:

- After June 17, 1987, a multiple unit residential building will cease to qualify as a multiple unit residential building on resale.
- The ability to claim capital cost allowance so as to create or increase the rental loss on existing multiple unit residential buildings will continue but will expire at the end of 1990 for taxpayers who owned the multiple unit residential buildings on June 17, 1987.

Rental losses from a multiple unit residential building resulting from claiming both regular operating expenses and capital cost allowance will be included in an individual's cumulative net investment loss, which may restrict the amount of lifetime capital gains exemption that can be claimed on a subsequent sale of an investment.

A number of briefs have argued that there is a significant problem with the changes to the MURB program, in that the White Paper proposes to change the rules retroactively. The old rules were relied on by taxpayers who purchased multiple unit residential buildings on the basis that they would be entitled to the related tax benefits, and the economics of investment in MURBs were determined accordingly.

The Joint Committee on Taxation of the Canadian Bar Association and the Canadian Institute of Chartered Accountants summarized this situation as follows:

However, where an incentive exists and taxpayers, in good faith, have invested based upon the government's representations, a resulting retroactive denial of the tax treatment can only lead to disrespect and cynicism about incentive measures and other aspects of our income tax system.

Therefore, the Committee recommends:

- 24. That owners of multiple unit residential buildings on June 17, 1987 be allowed to continue indefinitely to claim capital cost allowance at a 5 per cent rate to create or increase tax-deductible losses.**

Multiple unit residential buildings have been built and purchased across Canada. However, investors in some regions of the country face substantial negative cash flow and losses on their investment because of adverse economic conditions, and this situation is unlikely to change in the foreseeable future. The White Paper proposal to eliminate MURB benefits to purchasers after June 17, 1987 will impose an additional hardship on existing owners of multiple unit residential buildings.

The Canadian Institute of Public Real Estate Companies (CIPREC) summarized this situation as follows:

CIPREC is concerned with the adverse implications of retroactively changing the rules of an incentive program in which individuals were encouraged to invest to enable governments to meet affordable housing objectives. As a result of the White Paper proposals, many investors will incur further cash losses and in some cases lose their original investment. The proposals in this regard are also difficult to understand in light of the minimum tax provisions that now limit the tax benefits an individual investor can obtain from claiming capital cost allowance on a multiple unit residential building investment.

The Committee has concluded that where an existing owner holds a multiple unit residential building worth less than its original cost, the tax benefits should be allowed to be passed on to a subsequent investor. Maximum capital cost allowance at the new 4 per cent rate should be deductible from total income if the purchaser is paying less than the original cost of the multiple unit residential building to the vendor. To ensure that MURB benefits are not extended unreasonably, this provision could be limited to the first purchaser of existing multiple unit residential buildings after June 17, 1987. The Committee considers it to be unnecessary to extend this concession to taxpayers who

sell multiple unit residential buildings after June 17, 1987 for more than the original cost.

To put this amendment in place, some administrative procedures would be required. For example, a purchaser could be required to file with Revenue Canada a prescribed declaration signed by the vendor, which would acknowledge that the purchase price of the multiple unit residential building is less than the vendor's original cost.

Therefore, the Committee recommends:

- 25. That the first purchaser of a multiple unit residential building after June 17, 1987 be allowed to claim capital cost allowance at a rate of 4 per cent to create or increase a tax-deductible loss, provided the purchase price is less than the vendor's original cost.**

The Committee views its two recommendations as a more reasonable approach to phasing out preferential treatment for investment in multiple unit residential buildings. The phase-out period would not be as abrupt as proposed in the White Paper, and taxpayers who relied in good faith on an existing set of tax incentive rules when they purchased a multiple unit residential building in the past will not be affected retroactively.

Averaging

The White Paper proposes to eliminate both the forward averaging available to all individual taxpayers and the block averaging for farmers and fishermen.

Both forms of averaging, which require relatively complex calculations, are intended to allow taxpayers to spread the incidence of tax over a number of years. Forward averaging allows qualifying income to be averaged into the future provided that the tax is paid currently at the maximum rate. Benefits can then be realized in future years should income levels drop and the forward-averaged income is taxed at a lower than maximum rate. Block averaging provides a mechanism whereby farmers or fishermen could average their fluctuating income over a specified five-year period, thereby benefitting as much as possible from the graduated marginal tax rate structure. Alternative minimum tax is not payable when block averaging is used.

The Department of Finance argues that averaging is no longer necessary, as there are fewer tax brackets and narrower rate differentials between tax brackets. Nevertheless, some witnesses advocated its retention. For example, farmers called for the retention of block averaging on the grounds that their income can fluctuate dramatically for reasons beyond their control, such as the weather and changes in crop and livestock prices.

A number of submissions have identified the need for averaging for those taxpayers who have a relatively short, but high-income-earning career, followed by a lifetime of moderate earnings, such as professional athletes. In their situation an averaging system will be of limited value because the tax bracket structure will be compressed by reform. The same applies to those taxpayers who have one year of unusually high income among years of steady income. However, the Committee agrees with the proposal that forward averaging be eliminated.

In contrast, there is no averaging for those who in any one year earn little or no income among years of steady but modest income. This group includes authors and artists, and individuals who go in and out of the workforce. For these people, all or part of their personal tax credits in a low-income year, cannot be used, nor can they be recovered later. Thus the savings from an averaging system which allowed carry-forward of the unused part of personal tax credits could be significant.

The Committee believes that a fair tax system should assist low-income individuals with irregular income patterns, but not compensate middle- and high-income earners. Consequently, it believes that an averaging system should have the following characteristics:

- Compensate for fluctuations in earnings, particularly years with nil earnings.
- Apply only to those whose annual income is relatively low.
- Provide compensation primarily for the value of lost personal tax credits.
- Not apply to years in which an individual is enrolled at an educational institution, or is claimed as a dependant of another individual.
- Limit the time frame over which benefits could be derived to, say, five years.
- Be designed so that ideally the benefits of averaging would be calculated automatically by Revenue Canada.

Furthermore, the unique aspects of the farming and fishing industry justify the retention of five-year block averaging. The alternative minimum tax should also continue not to apply in years of block averaging.

For other people, a similar block averaging system should be available to enable them to recover any personal tax credits they lose in years in which they have little or no income. Table 8 illustrates how such a system could work. As is shown, even at relatively modest income levels significant tax savings in percentage terms would result from averaging.

Table 8
Tax Savings under an Averaging System

	Year				
	1	2	3	4	5
Taxable income	\$10,000	\$12,000	\$1,000	\$3,000	\$15,000
Tax - no averaging	1,020	1,530	0	0	2,295
Total tax (5 years)	\$4,845				
Taxable income - averaged over 5 years	\$8,200	8,200	8,200	8,200	8,200
Tax with averaging	560	560	560	560	560
Total tax (5 years)	\$2,800				
Tax reduction	\$2,045				

Note: Calculations are for a single taxpayer. Indexing over years is ignored, and the provincial tax is 50 per cent of the federal tax.

An averaging system of this type would be an effective method to compensate low-income earners for periods of unemployment and would encourage them to rejoin the workforce so that they could benefit from prior years' personal tax credits.

Therefore, the Committee recommends:

26. That block averaging be retained for farmers and fishermen.

27. That an appropriate averaging system be implemented to protect low-income earners from losing the benefit of personal tax credits as a result of fluctuations in income.

Taxation of Farmers

The proposed changes in the White Paper may affect farmers more than any other group. To the farm groups that sent briefs and appeared before the Committee the greatest concern was about the changing treatment of farm income and losses. The most important changes are:

- Replacement of cash accounting with modified accrual accounting;
- Use of an objective profit test (net income of at least \$1 in three of seven years) to determine who is in the business of farming;
- Use of a gross revenue test (gross revenue from farming greater than net income from other sources in three of seven years) to determine who is a full-time farmer.

These three changes are related to each other and should be treated as a package. Additional changes are related to them — for example, the increase from \$5,000 to \$15,000 in the allowable deduction of farm losses against other income for part-time farmers, the change in the allowable write-off of the cost of race horses and show animals, the new treatment of start-up farmers, and the transitional rules for the profitability requirement and gross revenue test.

In addition to proposing changes to the treatment of farm income and losses, the White Paper lists other changes that would also affect farmers. These changes include the elimination of five-year block averaging for farmers, new definitions of eligible capital property for the lifetime capital gains exemption (the exemption for farmers and certain small businesses will be \$500,000, while others will have the exemption capped at \$100,000), restrictions in the treatment of automobile and home office expenses, and the proposed put-in-use rules. These proposals are discussed in the relevant sections of the Report.

As mentioned, the move to modified accrual accounting, the profit test and the gross revenue test are related; the thrust of the three is to prevent taxpayers who are not full-time farmers from taking advantage of what some see as generous tax preferences. The profit test provides a supposedly objective test to separate hobby farmers from those in the business of farming. The gross revenue test provides a test for distinguishing full-time from part-time farmers.

For the profit and gross revenue tests to be objective — that is, to prevent behaviour that would render them useless — the cash accounting now used by most farmers must

be replaced with accrual accounting. With cash accounting, it is relatively easy to alter the timing of inventory purchases and thus manipulate recorded profits. The proposed accounting system is called a modified accrual system, because there is a "cash reserve adjustment" that is supposed to return profitable farmers to the taxable position they would have had under the cash system; the Ontario Federation of Agriculture, however, has argued that this equivalence will not hold over time.

Farmers have been almost unanimous in opposing the move away from the cash system. They point out that the modified accrual system is complex and costly; they fear that it is a first step towards full accrual accounting and, perhaps, the reduction or elimination of any special status under the tax system; they argue that the proposed system will lead to tax-motivated behaviour by farmers, a result at odds with the objectives of the White Paper.

The farm groups have been joined by accountants in pointing out potential problems with accrual accounting for farmers. The treatment of inventory will be a mess or a mystery, despite some attempt by the Department of Finance to address certain problems in its August 31, 1987 press release. Moreover, the transition from the existing cash system to the modified accrual system appears to be uncharted territory.

As the Joint Committee on Taxation of the Canadian Bar Association and the Canadian Institute of Chartered Accountants (CBA-CICA) pointed out, all farmers would be affected by the proposed changes although the problem has to do only with some part-time farmers. If this is the case — if the Department of Finance is worried that, say, someone with a high income in Toronto is "farming" on property outside Toronto and using the farm losses to shield non-farm income from tax — tax changes should be aimed at them instead of blanketing all farmers.

Table 9 draws attention to the large number of farmers who are *not* part of the problem.

Table 9

Profile of Individuals Reporting Net Farming Losses, 1981

	Full-time farmers	Part-time farmers	Total
Number of individuals in category	277,604	174,800	452,404
Number of individuals reporting a loss	48,605	124,074	172,679
Percentage of individuals in category reporting a loss	17.5%	71.0%	38.2%
Total losses (\$ million)	423.1	618.8	1,041.9
Amount restricted (\$ million)			86.8
Number of individuals with a restricted loss			34,471

Source: Department of Finance, *Tax Issues in Agriculture*, January 1985, p. 24, Table 10 (based on Revenue Canada taxation data).

The basic problem, of course, is that farm losses are used to shield other income from taxes. Farm losses of more than \$1 billion dollars were claimed in 1981 although more than 60 per cent of all farmers did not claim losses. For full-time farmers, the proportion of those not claiming a loss jumped to over 80 percent (about 229,000 farmers). These farmers, who are not part of the problem addressed by the White Paper, will be required to switch to modified accrual accounting if they are currently reporting on a cash basis for tax purposes. According to a survey prepared for the Ontario Federation of Agriculture, 58 per cent of Ontario farmers do not prepare financial statements on an accrual basis.

If the entire amount of farm losses claimed represented tax avoidance, then a change that would plug a \$1 billion leak should be warranted. But the expected revenue gain from the White Paper changes is, according to testimony by officials from the Department of Finance, "... probably in the order of \$50 million plus per year ... all of it from part-time or really hobby farmers."

All in all, the modified accrual accounting system would probably produce more real costs to farmers than benefits to the government. Therefore, the Committee recommends:

28. That farmers continue to have the option of choosing either cash accounting or accrual accounting for income tax purposes.

As is now the case under the *Income Tax Act*, farmers will not be able to switch back and forth between accounting methods. With the retention of the cash accounting system, the profit test and the gross revenue test should be dropped, as must the changes affecting start-up farmers, and race horse and show animal breeders. Two problems remain with respect to farmers. How does Revenue Canada determine who is in the business of farming, and how does it distinguish between full- and part-time farmers? The Finance Committee has already grappled with the issue of trying to determine who is in the business of farming (see the Finance Committee's April 1985 report *Tax Issues in Agriculture*).

The test of determining who is in the business of farming should continue to be based on whether there is reasonable expectation of profit from the farming activities. Although there is in this area established jurisprudence relating to what is a "reasonable expectation of profit", there are still disputes between Revenue Canada and taxpayers over who is in the business of farming, and uncertainty for those who would like to enter the business of farming.

Other individuals besides farmers face problems in demonstrating to Revenue Canada that they are carrying out a business instead of pursuing a hobby. Artists and authors, for example, may take a long time becoming established and profitable; determining a reasonable expectation of profit, therefore, can be tricky. To help in determining the expectation of profit, Revenue Canada has issued an interpretation bulletin (IT-504) that lists a dozen factors that should be considered. One of these factors includes "public and peer recognition".

Peer review is also used by Revenue Canada in determining whether certain activities will receive favourable treatment under the *Income Tax Act*. Those who want an activity considered under the scientific research and experimental development

refundable tax credit program must submit an application. Revenue Canada has a staff of scientific advisors who screen these applications for eligibility. "Routine engineering or routine development" activities are not eligible, but it is often a far from straightforward task to distinguish routine activity from eligible R&D activity. In difficult cases, Revenue Canada may hire outside specialists to help determine eligibility. The Department has an inventory of almost 1,500 specialists who can be hired as consultants; these consultants and the scientific advisors on staff provide a form of peer review.

The 1985 Report of this Committee and several farm groups have suggested a peer review process. Therefore, the Committee recommends:

- 29. That the Minister of National Revenue consider establishing peer review committees that include farm operators, assessors and auditors. These committees would be used to review the operations and plans of farmers to determine whether a farm operation has a reasonable expectation of profit, and the taxpayer can be deemed to be a farmer.**
- 30. That Revenue Canada ensure that personnel with experience in farming assist in the review and audit of farmers' tax returns.**

These recommendations provide a way of determining who is in the business of farming but do not necessarily help distinguish full-time from part-time farmers, nor determine how the losses of part-time farmers should be treated. At present, under section 31 of the *Income Tax Act*, the deductibility of farm losses is restricted for part-time farmers, while business losses for full-time farmers are unrestricted.

The problem of trying to determine who is a full-time farmer is about as old as the *Income Tax Act*. Tests have changed over time. The most recent stems from the 1977 *Moldowan* decision of the Supreme Court of Canada: full-time farmers are those for whom farming may reasonably be expected to provide the bulk of income or the centre of work routine. This test, coupled with the restriction on deductible losses for part-time farmers, poses problems for beginning farmers and farmers in financial difficulty. At the same time, the system seems to give tax advantages to those with high non-farm income.

One possible solution to the so-called Section 31 problem is to remove the need for the distinction between part-time and full-time farmers. A way to do this is to base the allowable deduction for farm losses on the extent of non-farm income. Therefore, the Committee recommends:

- 31. That individuals who qualify as being in the business of farming and use cash accounting for their farm business may deduct up to \$10,000 of farm losses against other income, subject to a claw-back of this deduction. For example, those with off-farm income of up to \$30,000 may have the full deduction; those with off-farm income greater than \$30,000 will have the allowable deduction reduced by \$1 for every \$2 of income above \$30,000.**

With the retention of cash accounting, the allowable deduction should be lowered from the figure of \$15,000 proposed in the White Paper. In its 1985 report, the Finance Committee suggested doubling the \$5,000 allowable deduction which had been in effect

since the 1950s; the \$10,000 figure has been retained in the above recommendation, although without the complication of a full deduction for the first \$5,000 loss and one-half of the next \$10,000 loss.

In the example, the claw-back provision means that individuals with off-farm income above \$50,000 would no longer be allowed to deduct farm losses calculated on a cash basis from their off-farm income. The policy of restricting the deduction of farm losses against off-farm income goes back to 1919. The recommendation above follows that policy and adds the new element of excluding those with high off-farm income from using farm losses determined on a cash basis to shield this income.

The example in the recommendation shows how the concept of a claw-back might work. The numbers used in the example — the allowable deduction, the maximum income at which the full deduction may be taken and the rate at which the claw-back takes place — seem reasonable. But the Committee did not have all the information needed to estimate the exact cost of the specific example presented. Some of the numbers used in the recommendation may be altered in the wake of research by the Department of Finance. The Committee believes, however, that the model provides a solution to a long-standing problem in the taxation of farmers.

Those with high off-farm incomes may choose, according to the first recommendation in this section, to use full accrual accounting. Accrual losses are equal to economic losses and are calculated in the same manner as for other businesses. It makes sense, therefore, to allow farm losses calculated on an accrual basis to be treated the same as losses for other businesses. Therefore, the Committee recommends:

32. That individuals who qualify as being in the business of farming and use accrual accounting may deduct all farm losses against other income.

The recommendations above address the problems of determining who is in the business of farming and how to treat part-time farmers with large off-farm income. These problems have been a concern in the tax system for almost 70 years; in 1985 the Finance Committee issued a report about tax issues in agriculture and, during the examination of the White Paper on tax reform, a large amount of time was spent analyzing and discussing the taxation of farmers.

The recommendations presented for peer review and the claw-back of allowable loss deductions are the result of careful consideration by the Committee. They appear reasonable and workable. If the government rejects the Committee's recommendations, it is imperative that solutions be found for the problems addressed by the recommendations.

If necessary, the Department of Finance should be prepared to begin consultations with interested parties across Canada — farm groups, accountants, tax lawyers, officials from Revenue Canada and other government departments. Finding a solution to the problems dealing with the taxation of farmers must be made a priority. The Committee has concluded, however, that the proposals in the White Paper are not a workable solution. Therefore, the Committee recommends:

33. That the White Paper proposals for modified accrual accounting, a profit test and a gross revenue test be dropped.

Corporate Income Tax Reform

Manufacturing and Processing

The tax treatment of manufacturing and processing income has been significantly altered by the White Paper. Foremost among the changes will be the phased reduction in the federal corporate tax rate applicable to Canadian manufacturing and processing income from the present rate of 30 per cent to 23 per cent by 1991, the reduced rate of capital cost allowance available for manufacturing machinery and equipment, and the introduction of a put-in-use rule. The small business manufacturing and processing tax rate will be raised from 10 per cent to the same level as the general small business corporate tax rate, which will be 12 per cent under the tax reform proposals. Although this is the only part of the manufacturing and processing sector to face a rate increase, the Committee has taken note of the strong endorsement of the overall tax reform package by small businesspeople, including the Canadian Federation of Small Business and the Canadian Organization of Small Business.

Manufacturing Corporate Tax Rate

The Committee believes that it is important to ensure that, in the face of major reductions in corporate tax rates in the United States, Canada maintains a competitive fiscal climate for its manufacturing and processing sector. A substantial gap in tax rates between Canada and the United States would result in a large diversion of taxable income across the border and a serious erosion of the government's revenue base.

The levels of corporate tax rates in Canada and the United States before and after reform are shown in Table 10.

It is clear from the table that Canada will continue to enjoy a competitive advantage over the United States in its manufacturing and processing corporate tax rate, although somewhat less than that experienced before reform, and that the benefits of locating manufacturing and processing industries in Canada will remain. Accordingly, the Committee accepts the proposed rates of tax on Canadian manufacturing and processing income set out in the White Paper.

Table 10

**Corporate Tax Rates in Canada and the United States
Before and After Tax Reform**

	Tax Rates Before Reform	
	Canada	United States
	(per cent)	
Federal rate	46	46
Manufacturing reduction	-6	0
Provincial/state reduction	-10	-3.7
Federal surtax	1.5	0
Average provincial/state rates	12	8
Average statutory rate	43.5	50.3
	Tax Rates After Reform	
	Canada	United States
	(per cent)	
Federal rate	38	34
Manufacturing reduction	-5	0
Provincial/state reduction	-10	-2.7
Federal surtax	0.7	0
Average provincial/state rates	12 ¹	8 ¹
Average statutory rate	35.7	39.3

¹ Subject to decisions by provincial/state governments

Capital Cost Allowance

There have also been substantial changes to the available write-offs for manufacturing machinery and equipment (Class 29). The White Paper has changed the treatment of such assets from a two-year straight-line write-off to a 25 per cent declining balance basis. The half-year rule continues to apply in both cases. Prior to tax reform, Canada's two-year write-off was strongly competitive with the United States' write-off of five years for similar assets.

These changes have attracted a great deal of concern from all sectors of the manufacturing and processing industry. The Committee heard from, among others, the Canadian Manufacturing Association, Canadian Chemical Producers, Council of Forest Industries of British Columbia, General Motors of Canada, Dow Chemical Canada, Bell Canada, the Canadian steel industry and the Canadian Petroleum Association.

Fairly typical of these submissions was the following comment from the steel industry brief: "The tax reform proposals to lengthen the write-off period for manufacturing assets and the introduction of the 'put-in-use' rule will have a long-term negative impact on the steel industry and on other capital-intensive industries."

These submissions drew to the Committee's attention the importance of the capital cost allowance system in maintaining a competitive position for Canada as an attractive location for new plants. As a submission by Dow Chemical stated: "Our analysis of the combined effects of both the U.S. and Canadian tax reform indicates that Canada will lose the position it has so far enjoyed as an attractive location for major plants. Under tax reform, other things being equal, a multi-national firm having the option of making a major capital investment in Canada or the U.S. could find it advantageous to build in the U.S. since depreciation is a significant cost element in the production of chemicals."

The proposed rates of depreciation for manufacturing assets will fall short of similar manufacturing depreciation in the United States. On a discounted cash flow basis the discrepancy will be more severe, as illustrated in Table 11.

It is apparent from the table that, at a 25 per cent declining balance rate, Canada may be at a disadvantage in comparison with the United States, and this disadvantage would be all the more pronounced in view of Canada's favourable position in this area prior to reform.

Accordingly, the Committee believes that the rate of depreciation for manufacturing machinery and equipment should be increased to a level that is comparable to that of the United States.

Table 11
**Manufacturing Machinery and Equipment
Depreciation Schedules**

Year	United States 7-Year	Canada 25 per cent	Canada 30 per cent
		(per cent)	
1	14.3	12.5	15.0
2	24.5	21.9	25.5
3	17.5	16.4	17.9
4	12.5	12.3	12.5
5	8.1	9.2	8.7
6	8.1	6.9	6.1
7	8.1	5.2	4.3
8	4.5	3.9	3.0
9		2.9	2.0
10		1.6	1.5
Written off after 10 years	100.0	92.8	96.5
Discounted present value of total write-off ¹	72.1	66.2	70.0

¹ Assumes a discount rate of 10 per cent

Therefore, the Committee recommends:

- 34. That the rate of capital cost allowance for manufacturing machinery and equipment (Class 29) be set at 30 per cent on a declining balance basis and not at 25 per cent as proposed in the White Paper.**

Put-In-Use Rule

The introduction of the put-in-use rule was a subject of concern to many witnesses from the business community who came before the Committee. The rule will defer a taxpayer's ability to claim capital cost allowances and investment tax credits to the year in which eligible assets are "put-in-use" as opposed to the year of acquisition under the current law. This rule is intended to ensure that depreciation claims and investment tax credits are not taken before the eligible assets are placed in operation.

The application of the put-in-use rule will be felt most severely by manufacturers, and real estate and resource developers who undertake large, long-term capital-intensive projects in which expenditures are made well ahead of the completion of the project. In its submission to the Committee, the Alberta Energy Company said: "The rule would have a significant negative impact on proposed capital investments causing otherwise viable projects not to be undertaken with obvious adverse consequences to regional and national economies."

While the Committee agrees with the underlying principle of a put-in-use rule to better match income and expenses, it also believes that the rule should apply on the basis of when assets are ready for service. For instance, a farmer who traditionally buys equipment in the fall cannot "use" that equipment until the following spring, yet it is nonetheless ready for service at the time of purchase. Similarly, in many new plants assets are purchased but cannot be used because their "use" depends on other assets being put into operation. The Committee is of the view that using a "put-in-place" rule for claiming capital cost allowances and investment tax credits on eligible property would alleviate these problems and allow property not "in use" but available for service to be claimed. Such a rule would reflect the economic reality of assets which are ready for service but which are not actually in use.

The Committee is also anxious to ensure that either a put-in-use or put-in-place rule does not adversely affect large capital-intensive mega-projects which by their nature have long lead times and on-site construction where assets cannot be "in place" or "in use". Such projects are particularly sensitive to international competitiveness, and the application of a put-in-use or put-in-place rule in conjunction with the proposed lower rates of capital cost allowances and investment tax credits could have a significant negative impact, causing otherwise viable projects not to proceed. Accordingly, the Committee believes that 24 months after the acquisition of an asset a taxpayer should be entitled to begin claiming capital cost allowances and investment tax credits in respect of the asset even if it has not in fact been put in use or in place.

Therefore, the Committee recommends:

- 35. That in determining eligibility for claiming capital cost allowances and investment tax credits in respect of any eligible property, the put-in-use rule be changed to a put-in-place rule.**

36. That for the purpose of either a put-in-use or put-in-place rule, an asset be deemed to be put in use or in place, as the case may be, 24 months after it is acquired if it has not in fact been put in use or in place by that time.

Investment Tax Credits

Scientific Research and Experimental Development

Firms engaged in scientific research and experimental development (R&D) in Canada have benefitted from a favourable tax regime as the expenses are generally eligible for investment tax credits ranging from 20 per cent to 35 per cent, and the net amount is fully deductible. However, as part of the commitment to base broadening in tax reform, some R&D tax incentives are being removed or restricted, as follows:

- Buildings acquired after 1987 will no longer qualify as R&D expenditures.
- Generally, investment tax credits claimed in a taxation year ending after 1987 will be limited to one-half of federal tax payable. Special rules will allow Canadian-controlled private corporations to fully offset their tax payable on income eligible for the small business deduction, and individuals can fully offset their first \$24,000 of taxes payable.
- Refundability of investment tax credits earned by large corporations will be ended for property acquired or expenditures made after 1987 — one year earlier than previously scheduled.

These changes should increase federal government revenue by \$200 million for the 1988 taxation year (\$20 million from buildings, \$80 million from the limitation on investment tax credit claims and \$100 million from eliminating the refundability provisions for large corporations a year in advance). For 1989 to 1992, the revenue gain will average \$135 million a year.

This increase in federal revenue is a short-term gain and must be balanced against the long-run effects on Canada's technological position. According to the OECD, high technology will account for 25 per cent of world trade by 1995, up from the present 12-per-cent level. The Canadian Advanced Technology Association (CATA), which represents 700 companies that performed more than 80 per cent of privately funded industrial R&D in Canada last year, expressed the view that Canada is being left behind with a stagnating level of R&D of 1.35 per cent of gross domestic product (GDP) while the United States and Japan are approaching 3 per cent.

While these numbers may be influenced by special factors (for example, the large defence and space programs being undertaken in the United States), they still indicate that Canada must provide sufficient support to maintain a satisfactory percentage of GDP allocated to experimental research and development. It is especially important for adequate tax incentives to be provided since non-tax government support in Canada is weak compared to that in other countries. According to a table provided by the Canadian Manufacturers Association, non-tax government support in the United States, Germany, France and the United Kingdom for industrial R&D was on average 25.5 per cent of total R&D performed in industry, while in Canada non-tax government

support was 12 per cent of the total. Until Canada adopts a grant system or other non-tax support programs, tax incentives must remain favourable.

Since 1977, Canada has maintained a tax policy that contributes in a direct and supportive manner to the achievement of a high level of R&D. In the April 1983 federal budget, improved incentives were provided for R&D. The 50-per-cent limit for claiming investment tax credits when taxes exceeded \$15,000 was also abolished. Furthermore, a special refundable investment tax credit program was introduced.

Although there is insufficient evidence to assess the precise effects of tax incentives, it seems that the tax incentive system for Canadian R&D has been efficient. There have been major increases in the number of firms performing R&D. Furthermore, the amount of R&D performed in the private sector increased after the 1977 and 1983 tax incentives were introduced.

Briefs and Testimony

The briefs submitted to the Committee and the testimony of witnesses have stressed that the White Paper proposals will have a negative effect on the amount of R&D performed in Canada. A major concern is the limit on annual investment tax credit claims. CATA has estimated that up to 40 per cent of the R&D performed by Canada's high-tech companies will no longer be supported by R&D tax incentives.

The Business Council on National Issues identified this issue in its testimony:

I think the issue you will have to address is whether for a small group of Canadian corporations that have massive research projects, you want to give them a restriction on the tax credit that they can claim and in effect, a different type of tax treatment that is available to other people that can use the entire tax credit immediately because they are not doing that much effort and therefore their tax credit is totally absorbable within 50 per cent of their federal tax payable.

Limiting the annual investment tax credit claim to 50 per cent of the federal tax payable will make the benefits of the investment tax credit carryforward nominal for companies that perform significant R&D on a regular basis. This measure is equivalent to a reduction in the rate of the investment tax credit. The full relief for small Canadian-controlled private corporations on their federal tax on active business income and for individuals on the first \$24,000 of investment tax credit will be of little help in stimulating R&D activity, because, as witnesses have testified, these taxpayers generally perform very little of the total R&D in this country.

An investment tax credit rate of 20 per cent on which only 50 per cent may be claimed to offset taxes will weaken Canada's competitive position vis-à-vis the United States. It may be true that when comparing the tax incentives in Canada and in the United States, Canada is offering a favourable package. It has to be remembered, however, that tax incentives in Canada must remain preferential to compensate for the weakness of the non-tax government support.

In the United States, the credit is 20 per cent on current expenditures only and then only on incremental expenditures above a base amount. Furthermore, the credit in

the United States is temporary and will be eliminated after 1988. However, the limit on annual claims is more generous than the proposed 50 per cent restriction in Canada. In the United States, there is no limit on claiming investment tax credits up to the first US\$25,000 of taxes for any taxpayer, and the remainder can be claimed to offset 75 per cent of the tax liability.

The Committee's View

The Committee has concluded that the limit on annual investment tax credit claims of 50 per cent of federal tax payable is inadequate and does not serve its intended purpose. While this proposal was intended to ensure that profitable large corporations pay some tax, it is more likely to remove support for the R&D expenditures of the medium-size corporations that are the heavy performers of R&D.

Thus the proposed limitation on the investment tax credit has uneven impacts; companies that account for a large proportion of R&D will be most affected. The extension of the carry-forward period from seven to ten years is insufficient for these companies, especially because the reduction in corporate tax rates will also slow down the rate at which unused investment tax credits may be claimed.

Moreover, the 50 per cent limit applied to investment tax credits earned from April 19, 1983 but not yet claimed is a retroactive measure.

If the government wants to change the R&D investment tax credit policy to compensate for the reduction in corporate tax rates, it should do so directly and evenhandedly by reducing the rate and not indirectly by preventing some corporations — generally heavy R&D performers — from claiming investment tax credits.

Therefore, the Committee recommends:

- 37. That the investment tax credit for scientific research and experimental development expenditures that may be claimed in a year not be limited to one-half of federal tax payable.**

Public and large corporations active in R&D have strongly criticized another tax reform proposal, namely the one-year advancement of the termination date for providing refunds of a portion of unused investment tax credits. While the temporary refund program was supposed to end for expenditures incurred after 1988 by any taxpayer, it has been terminated one year sooner for large corporations, but extended indefinitely for other taxpayers (individuals and Canadian-controlled private corporations with taxable income of \$200,000 or less.)

The large corporations include any public corporation and any other corporation that has taxable income over \$200,000. Mitel Corporation appeared before the Committee as an example of a public company that is heavily involved in R&D; it has no taxable income and therefore will not benefit from its substantial investment tax credit reserve until the company becomes taxable. Under the new rules, when the refund program ends Mitel will receive no tax support although it will continue to invest substantial amounts in R&D.

The Committee questions why a public corporation should automatically be excluded from the definition of a qualified corporation that may still benefit from the refundability provisions. If a small Canadian-controlled private corporation is allowed a 100-per-cent refund of its 35-per-cent investment tax credit, then a public corporation with no taxable income should at least be eligible for a 20-per-cent refund on its 20-per-cent investment tax credit.

The Committee believes that refundability of investment tax credits should be based on "need" rather than on the status of the taxpayers. The critical level of income may remain at \$200,000 of taxable income as it presently exists for private corporations. This would provide a more equitable treatment of the R&D refundable tax credit.

Therefore, the Committee recommends:

- 38. That the refundability of R&D investment tax credits should depend on a "needs test" based on a corporation's income and not on whether a taxpayer is a public or private corporation.**

Buildings acquired after 1987 can no longer qualify as R&D expenditures (with the exception of buildings for which there was a pre-tax reform agreement that they be acquired before 1990). They will be treated like any other building; that is, they will be depreciable at a 4 per cent declining balance rate. Prior to tax reform, the purchase of a building for R&D would generate a 20 per cent investment tax credit and the net amount (purchase price less investment tax credit) would be deductible in the current year.

This measure has been proposed in order to bring the tax treatment of R&D buildings in Canada in line with that in other industrialized countries. Indirectly, it should also eliminate the significant tax avoidance that took place where taxpayers were taking a 100-per-cent write-off for buildings and then using the buildings for R&D for only a short period of time.

In the United States, only expenditures of a current nature are entitled to an investment tax credit. In Canada, any expenditure related to an R&D project is treated as an R&D expense, whether it is current or capital. Excluding buildings might appear arbitrary because other capital property, such as computers, will still be eligible for 100 per cent deductibility.

Bell Canada suggested in its brief a possible compromise of a capital cost allowance of 20 per cent for R&D buildings. However, no evidence was brought to the Committee of a possible detrimental effect caused by the exclusion of buildings as an R&D expense. Because this restriction is part of the base broadening and will not harm Canada's competitiveness, the Committee sees no reason to reject the proposal.

Investment Tax Credits For Specified Areas

The government is currently supporting regional economic development in Canada by providing an enhanced investment tax credit on property used in specific areas such as Cape Breton, Atlantic Canada (including Gaspé Peninsula) and special regional areas. Under the tax reform proposals, the investment tax credit rates will be reduced from 60 per cent to 45 per cent for Cape Breton, from 20 per cent to 15 per cent for the

Atlantic region and from 40 per cent to 30 per cent for certified property used in prescribed low-growth areas. This reduction in investment tax credit rates is in line with the general reduction in tax rates.

This proposal was addressed by business representatives in Halifax. They regard the investment tax credit as a valuable incentive even considering the reduced rates. Therefore, the Committee does not disagree with the proposed reductions in the regional investment tax credit rates.

Flow-Through Shares

Flow-through shares are used in the mining and oil and gas industries by corporations that incur exploration expenses but have insufficient taxable income to write them off. The mechanism allows the company to pass these deductions on to its investors. These investors also benefit from an earned depletion allowance at the rate of 33 1/3 per cent of eligible expenditures on exploration and development of petroleum and mineral resources. Finally, the capital gain realized upon the disposition of shares is tax free in most cases because of the lifetime capital gains exemption put in place in 1985. Thus the present measures make flow-through shares very attractive compared with other investments.

The White Paper does not propose changes in the flow-through mechanism. However, it does attempt to make investment in flow-through shares more comparable with investments in other sectors and to provide equal treatment between the mining and the oil and gas industries:

- The earned depletion allowance will be phased out by reducing the rate at which it can be earned from 33 1/3 per cent to 16 2/3 per cent for eligible expenditures incurred after June 30, 1988 and by eliminating the ability to earn depletion on expenditures made after June 30, 1989.
- The taxable part of capital gains is increased from one-half to two-thirds in 1988 and to three-quarters in 1990.
- The lifetime capital gains exemption is limited to \$100,000.
- The capital gain eligible for the lifetime exemption will be reduced by cumulative net investment losses. Cumulative net investment losses includes Canadian exploration expenses and development expenses, Canadian oil and gas property expenses, mining earned depletion allowance (until it disappears) and interest on funds borrowed to acquire flow-through shares and partnership interests.
- The issuing costs are amortized over five years.
- The definition of "prescribed shares" will be broadened in order to disqualify from the flow-through treatment shares that carry any entitlement to a payment, repayment, loan or dividend or any retraction or conversion right (including a put option but excluding an arrangement that is to take place at fair market value). This definition is applicable to shares issued after June 17, 1987 unless they are issued prior to 1989 according to a prior agreement or public documents.

- The at-risk rules applicable to limited partnerships will be extended to apply to resource expenditures incurred by partnerships.
- The oil and gas exploration expenses incurred within 60 days after the end of 1987 and subsequent calendar years under a flow-through share arrangement will be treated as if they had been incurred on the last day of the preceding calendar year.

The elimination of the earned depletion allowance will produce \$80 million in additional federal revenues in 1990, and \$330 million from 1988 to 1992. No estimates are available of the revenue provided by the non-eligibility of capital gains for the lifetime exemption and the other measures.

Mining associations, prospectors and developers, brokers and corporations in the industries affected submitted briefs and appeared before the Committee. While accepting a need for some restrictions, they argued that the proposals went too far. They expressed the view that the proposals did not take into account the very high risk of investments in exploration.

Several witnesses emphasized the importance of the industry for employment and the economic development of remote areas. A study done by the *Association des prospecteurs du Québec*, for example, found that the flow-through mechanism and related incentives for the mining sector contributed to the realization of 71 public share issues in 1985 (38 from junior companies and 33 from flow-through shares), which resulted in 25 discoveries that in future may generate profits and 66,660 jobs, \$2.8 billion of value added and \$300 million of net income for federal and provincial governments. Unfortunately, it is impossible to provide accurate forecasts of the effects of the changes in the preferential tax treatment of flow-through shares on exploration activity and on the economies of remote areas.

On the other hand, a study prepared for the Economic Council of Canada in June, 1987 concluded that the flow-through share is an inefficient mechanism for raising money because of high issuing cost and high risk premiums to the investors:

For the seven cases examined in this study, the loss in tax revenue ranges from about \$1.50 of revenue loss for an additional \$1.00 of tax benefits transferred to a non-taxable company, to a high of over \$16.00 of revenue loss per dollar of tax benefits transferred.

The timing of the reduction of the earned depletion allowances on July 1, 1988 and their elimination after July 1, 1989 was heavily criticized. Several witnesses noted that changing the rules in the middle of the year would produce unnecessary complications. National Investment Management Ltd. also stressed that a decrease in the allowance after July 1, 1988 would have a retroactive effect since funds have already been collected for 1988 from investors who assumed they would receive a mining earned depletion allowance of 33 1/3 per cent.

The Committee agrees that the earned depletion allowance should be abolished. However, they accept the arguments in favour of deferring the phasing out by six months. Therefore, the Committee recommends:

39. That the rate at which the earned depletion allowance can be earned be reduced from 33 1/3 per cent to 16 2/3 per cent for eligible expenditures incurred after the end of 1988, and that the allowance be abolished for eligible expenditures incurred after 1989.

Many witnesses argued that the phasing out of the earned depletion allowance, combined with the increase in the inclusion rate for capital gains, the cumulative net investment losses rules and the amortization of issuing costs over five years will make investments in flow-through shares much less attractive after 1988. Some witnesses suggested that no more shares would be issued after 1989. Investors who are now willing to pay premiums of up to 35 or 50 per cent, may find that the expected return on the investment is insufficient to contemplate payment of any premium for shares issued in 1989. This is especially true for shares issued by junior companies.

The Committee considered many alternatives to the White Paper proposals. These included: (a) changing the adjusted cost base from nil to an amount equal to the after-tax cost or 50 per cent of the acquisition prices, (b) introducing an investment tax credit equivalent to the current earned depletion allowance; and (c) excluding the deductions for resource expenditures allowed under an investment in flow-through shares from the cumulative net investment losses. The Committee rejected these suggestions as being contrary to fundamental tax concepts, inequitable, inefficient or unacceptably complex.

The Committee agrees, however, that tax incentives or government subsidies may be necessary as temporary measures during periods of depressed prices or economic downturns to ensure the survival of exploration activities in Canada.

The proposals to extend the at-risk rules to resource expenditures incurred by partnerships and to extend the definition of a prescribed share so as to exclude any share offering a guaranteed amount to the investor were designed to ensure that flow-through share investment decisions are based more on real economic considerations and less on tax considerations. The argument for providing tax incentives to flow-through shares is that the investment is risky. The new rules aim to ensure that the investor in flow-through shares bears a real risk. The Committee finds itself in agreement with the proposed treatment.

It was also suggested that oil and exploration expenditures be treated in the same way as "grass roots" mining exploration expenditures, and that a flow-through investor be allowed to deduct in a given year the expenditures incurred in the first 60 days of the following year. The Committee agrees with this proposal because it recognizes the nature of the oil and gas industry and removes an unjustified difference in treatment between industries.

Eligible Capital Property

Some business-related expenditures such as goodwill, quota rights, incorporation fees, perpetual franchises and certain customer lists are neither deductible currently, because they are capital in nature, nor depreciable by way of capital cost allowance. Instead, these expenditures on what is termed "eligible capital property" are added to a separate pool of costs such that under present rules, one-half of the costs may be

claimed as a deduction on a 10 per cent declining balance basis each year. Unlike capital cost allowance, the deduction is not subject to a "half-year rule".

When an eligible capital property is sold, one-half of the proceeds are deducted from the pool, and the deduction for the year is based on the net balance. If the balance in the pool becomes negative at the end of a taxation year, the negative balance must be included in the taxpayer's income. This is similar to the treatment of recaptured depreciation except that no capital gain is recognized if the proceeds from the sale exceed the original cost of the eligible capital property — as one-half of the full amount of the proceeds has been deducted from the pool. In line with this distinction any gain realized by an individual on the sale of eligible capital property is neither eligible for the lifetime capital gains exemption nor subject to the alternative minimum tax.

The White Paper proposes a number of changes to the tax treatment of eligible capital property "... generally consistent with the proposed increases in the portion of a capital gain that is to be included in a taxpayer's income," as follows:

- The portion of an eligible capital expenditure that is added to the pool of cumulative eligible capital is to be increased from one-half to three-quarters.
- The portion of the proceeds of disposition of an eligible capital property that is deducted from the balance of the pool will also be increased to three-quarters.
- To offset the increase in the inclusion rate from one-half to three-quarters, the rate of write-off will be reduced from 10 per cent to 7 per cent on a declining basis.

These changes will apply to fiscal periods commencing after June 30, 1988 for corporations and after December 31, 1987 for individuals carrying on business as proprietors or in partnerships. To keep the system whole, the changes will be matched by an increase of one-half in the balance of a taxpayer's existing pool of unclaimed eligible capital expenditures. However, no allowance has been provided, other than through the proposed lower tax rates (10 per cent to 7 per cent) for the retroactive effect of the increased inclusion rate (three-quarters in place of one-half) applying to the accrued gain in the value of goodwill, quota rights and other eligible capital property when the tax reform proposals become applicable.

A further change in the White Paper proposals will increase the disparity between the tax treatment of eligible capital property and capital property on sale. After June 17, 1987, when eligible capital property is sold, the applicable percentage of the proceeds must be deducted from the balance of the pool of unclaimed eligible capital expenditures at the time of sale, rather than when the purchase price is required to be paid by the purchaser. The White Paper states that the proceeds represent "... in large part, the recapture of a write-off that had previously been deducted" and the proposed change would be "consistent with the treatment of depreciation recapture." However, the portion of the proceeds in excess of the original cost of the eligible capital property — equivalent to a capital gain for which no deduction had been made — will be treated the same way, whereas some of the taxable portion of a gain realized on the sale of a capital property can be deferred for up to five years if the proceeds are not due in full at the time of sale. This change will prove to be particularly harsh in respect of goodwill proceeds realized on the sale of an unincorporated business where the goodwill had been built up in the business rather than purchased originally, that is, no amount had

ever been deducted for the goodwill. This too may necessitate the incorporation of a business prior to sale, if the proceeds will be payable over time.

The Committee recognizes that the White Paper has not remedied the one major disparity between the treatment of eligible capital property and capital property. The lifetime capital gains exemption will still not be available to an individual who realizes a gain on the disposition of eligible capital property on the sale of an unincorporated business carried on as a proprietorship or partnership. This distinction prompted the *Union des Producteurs Agricoles*, for example, to recommend that the \$500,000 lifetime capital gains exemption should be applied to gains realized on the sale of production quotas. Although the Committee notes that individuals who dispose of shares of a small business corporation will be entitled to a lifetime capital gains exemption of up to \$500,000, the Committee has concluded that eligible capital property should be treated as depreciable property and not like shares of a small business corporation.

The Committee notes that, in principle, eligible capital property should be treated in the same manner for tax purposes as depreciable property in respect of the portion of the cost that may be claimed as a deduction, and as capital property in respect of proceeds realized on sale in excess of the original cost. Consequently, two-thirds of any capital gain would be included, like other depreciable assets, in income and would also be eligible for the \$100,000 lifetime capital gains exemption. This move to a two-thirds inclusion would also necessitate a drop in the rate of deductibility to 8 per cent. The Committee has reached this conclusion because it perceives that the historical reasons for the separate treatment of eligible capital property no longer apply and that significant simplification can be achieved by combining the eligible capital property rules with those applying to depreciable property. In making this recommendation, the Committee believes that the treatment of eligible capital property under the tax reform proposals would be consistent with that of capital property, but notes that the extension of the lifetime capital gains exemption to gains realized on this type of asset may have a significant revenue impact.

Therefore, the Committee recommends:

- 40. That eligible capital property be treated as a separate class of depreciable property with a deemed cost equal to the applicable percentage of its actual cost, and any proceeds of disposition be deemed to be the applicable percentage of the actual proceeds.**
- 41. That the “applicable percentage” in respect of eligible capital property be increased from one-half to two-thirds.**
- 42. That on the implementation of these recommendations the balance of existing cumulative eligible capital pools be increased by one-third, and the depreciation rate for eligible capital property be reduced from 10 per cent to 8 per cent.**
- 43. That any proceeds of disposition of eligible capital property in excess of original cost be treated as a capital gain eligible for the \$100,000 lifetime capital gains exemption.**

44. That the existing rules in relation to recaptured depreciation and taxable capital gains apply to the recognition of the proceeds of disposition of eligible capital property that are not receivable until a later year.

Real Estate

The White Paper proposes significant changes to the overall taxation of real estate developers, estimating that the changes to the treatment of real estate carrying costs and soft costs will raise \$10 million in 1988 which would grow to \$70 million in 1992 once the proposals had been fully implemented. No specific estimates are provided for the impact of the other changes on real estate. Table 12 compares the current and proposed systems.

The proposals put forward in the White Paper will raise revenue, but important issues remain. Will the revenue be raised equitably across the industry? Are the proposals reasonable given the nature of the industry? Are the rules consistent with taxation rules facing other industries?

The Committee received briefs and heard testimony from various members of the real estate industry, including large, medium and small developers. The general thrust of the comments received was that although the industry accepted that more tax in total should be paid by its members, the witnesses found the proposed changes excessive. Submissions were received from groups representing small real estate

Table 12

Tax Treatment of Real Estate Developers

	Before Tax Reform	After Tax Reform
Carrying costs on vacant land inventory	Currently deductible	Capitalize to land
Carrying costs on vacant land held for expansion	Currently deductible	Capitalize to land
Construction period "soft costs"	Currently deductible	Capitalize to land and building as appropriate
Capital cost allowance on building held for rent	5% declining balance	4% declining balance
Capital gains inclusion rate	50%	66 2/3% growing to 75%
Cost of obtaining financing	Currently deductible	Deductible over 5 years for share issues, or term of debt for debt issues.
General business rate of tax	36%	28%
Put-in-use rule	N/A	Applicable

developers indicating that their sector will be hit disproportionately by many of the proposed tax changes. As indicated by the Canadian Home Builders Association:

The competitive advantage that large developers/builders have will be increased because of their ability to absorb better the increased costs and because the impact of tax reform will be felt sooner by the small companies than the larger ones. In addition the tax rate reductions will have greater benefit to large corporations than small corporations.

This position was reinforced by the Canadian Institute of Public Real Estate Companies (CIPREC) in their presentation regarding the deduction of carrying costs on land inventory.

... this provision will be more prejudicial for non-CIPREC members who are small homebuilders since in many cases, these contractors will now be required to pay income tax for years in which they do not 'make money'.

There have also been concerns raised that the White Paper proposals do not properly reflect an understanding of how the real estate development industry operates. For example, the requirement to capitalize carrying costs to the value of the land may be self-defeating. That is, situations will occur where after a number of years of capitalizing carrying cost, the tax value of the land could exceed fair market value. For tax purposes, a write-down to fair market value would be required. This change would open up problems of valuation, assessment and appeal.

Furthermore, a number of witnesses indicated that there is no recognition that land must be assembled and carried for a number of years while zoning requirements and permits are obtained and financing arranged. Nor has there been any recognition that incidental revenue is earned while a project is being developed. Under the White Paper proposals, revenue will be taxed currently, while associated costs must be capitalized until the project is complete. As the Joint Committee on Taxation of the Canadian Bar Association and the Canadian Institute of Chartered Accountants put it:

A dislocation of the receipt of revenues and the deduction of expenses could occur with multi-unit projects. Further, projects that as a whole produce a loss may nonetheless result in a tax liability to the developer with respect to the first sales that are made.

Many submissions argued that the real estate industry was being singled out from other industries in the treatment of certain costs. A particular complaint of many witnesses was that inventory carrying costs will not be allowed as a deduction for real estate developers. Witnesses argued that other industries with long inventory-holding periods, for example, distillers, are able to claim their carrying costs of inventory as a current deductible expense.

A primary area of concern is the capitalization of interest on vacant land. The Committee considers that these costs are an integral component of the development industry and are properly currently deductible against income provided the taxpayer is in the real estate development business. It is incorrect to attempt to derive tax by disallowing the deduction of otherwise justifiable costs.

The Committee does believe, however, that soft costs incurred during construction (for example, interest charges during construction) can justifiably be said to be capital in nature, as opposed to a currently deductible expense. These costs should be capitalized to the cost of the building and a deduction allowed in line with the appropriate capital cost allowance.

There was some evidence presented to the Committee arguing that there may be some inequities in the application of a put-in-use rule as it relates to the real estate industry. The Committee was not convinced, however, that major changes to the put-in-use rule for real estate projects were warranted, beyond those already proposed by the Committee.

Therefore, the Committee recommends:

- 45. That carrying costs on vacant land continue to be deductible as a current expense by real estate development companies.**
- 46. That the proposals requiring the capitalization of soft costs incurred during construction are appropriate and should be implemented, but the amounts should be capitalized totally to the building.**

A perceived problem with the industry is that many large real estate companies are profitable in an accounting or financial sense but do not have any taxable income and therefore pay little or no tax. For example, this may occur where a real estate company finances its expansion by way of mortgaging existing properties so as to extract inherent gains in value, without paying any current income tax.

The Committee advocates that the Department of Finance should review an alternative source of taxation for the real estate industry. The Committee believes that some alternative form of taxation must be devised to ensure that the real estate industry pays its fair share of tax. An asset tax based on historical cost or depreciated cost may not be appropriate because of its uneven application. Furthermore, an asset tax based on the fair market value of assets would be difficult to administer and fraught with complications regarding the ongoing valuation of real estate assets. To address the issue of taxing the fair market value of the operations of a real estate corporation, one option is a form of alternative minimum tax based on a percentage of gross rental revenue. A relatively low tax rate could be applied to non-residential rental revenues when they are greater than a specified minimum, say \$1 million. Such an alternative minimum tax would be payable to the extent it exceeded regular income tax payable, but it would be limited to 28 per cent of reported Canadian accounting income. This would ensure that a company incurring accounting losses does not have to pay tax.

The intent of this relatively simple proposal is to raise a base level of taxes from those companies in the real estate industry that report accounting income, have significant rental income and pay little or no regular income tax.

Therefore, the Committee recommends:

- 47. That the government implement an alternative minimum tax on the real estate industry. The tax would be established at a low rate and on an appropriately broad base with a *de minimis* rule. Furthermore, this tax would be payable, only to the extent that it was greater than regular**

corporate income tax but would be limited to 28 per cent of the Canadian portion of reported accounting income.

The Committee generally supports the base-broadening implication of reducing the capital cost allowance on buildings to 4 per cent, although a concern was expressed to the Committee that this rate may be too low to encourage renovation of Canadian buildings over 50 years old. In the Committee's view, the Department of Finance should undertake a study to assess whether a favourable rate of depreciation should be available to taxpayers who renovate older buildings instead of constructing new ones. For example, if capital cost allowance rates of 6 per cent were available to those taxpayers renovating qualified property versus the general rate of 4 per cent, compensation by way of a tax incentive would be provided where the cost of renovations exceeded the cost of building a new building by up to 30 per cent.

Therefore, the Committee recommends:

- 48. That while the White Paper proposals requiring the reduction in the rate of capital cost allowance for buildings from 5 per cent to 4 per cent should be adopted, an assessment should be made by the Department of Finance to determine whether a preferential rate of capital cost allowance should be available to taxpayers who renovate buildings that are over 50 years old.**

Expenses of Issuing Securities

At present, taxpayers may deduct the costs of issuing securities or debt in the year they are incurred. These costs include underwriting commissions and sellers' fees, legal and accounting fees, registrars' and transfer agents' fees, and printing expenses and filing fees relating to an issue. The expenses of issuing trust units and partnership interests are also deductible in the year incurred, which has the effect of permitting partners in a partnership or unitholders in a trust to deduct part of their investment costs, thereby adding to "the tax advantages of tax-motivated investments."

To achieve a better matching of expenses with revenues, the White Paper proposes that applicable to issue expenses and other costs incurred after December 31, 1987 with respect to debt and other securities issued after that date:

- Expenses relating to the issue of shares, partnership interests and trust units will be amortized over a five-year period; and
- Expenses relating to borrowing funds will be amortized over the term of the debt obligation, including any renewal periods, with a minimum of five years — however, any unamortized costs will be deductible in the year in which the borrowings are repaid.

The projected federal revenue effect of these proposals will be an increase of \$50 million for 1988 declining to \$10 million in 1992.

Witnesses who appeared before the Committee had a number of concerns:

- The Trust Companies Association of Canada said that long-term debt issues would be discouraged.

- The Canadian Bankers' Association said that the proposals would favour equity securities over debt with a term of more than five years, and would create uncertainty as to their application to perpetual debt instruments and revolving loan facilities.
- The Joint Securities Industry Committee on Tax Reform said that the current tax treatment of expenses of issuing securities had been very effective in encouraging Canadian companies to raise equity capital and had been particularly helpful for small business. The claiming of these expenses over a period of years would make it difficult for Revenue Canada to distinguish them from those expenses that would still be deductible immediately, such as advisory costs, especially "in the event they are incorporated into the issue price of corporate financing."

The Joint Securities Industry Committee on Tax Reform also indicated that the tax reform proposals would not be effective because companies that do "regular financing and that are very sophisticated will re-design share and debt issues so as to virtually minimize any non-deductible expenses." As a result, investors would pay more for new issues of securities leaving the same net after-tax proceeds available to the issuer as would be available when the expenses were deductible currently.

The Committee recognizes that the tax treatment of the costs of issuing securities or debt should not lead to a mismatching of revenues and expenses and should not encourage tax shelter financing. Partnerships and trusts should not be used as a means of converting capital expenditures of an investor into currently deductible expenditures. However, the Committee believes that although the expenses of issuing debt should be deducted over the term of the debt, the tax treatment of the expenses of issuing debt and other securities should as far as possible be neutral.

Therefore, the Committee recommends:

- 49. That, as proposed in the White Paper, expenses relating to the issue of shares, partnership interests and trust units be amortized over a five-year period; but that expenses relating to borrowing funds be amortized over the term of the debt obligation including any renewal periods, with a maximum of five years. Any unamortized costs should be deductible in the year in which the borrowings are repaid.**

Preferred Share Financing and Dividend Distributions

Preferred share financing is subject to complex rules in the *Income Tax Act*. These rules, including the definition of the various types of preferred shares, have been revised on a regular basis. Since 1978, for example, the definition of “term preferred shares” has been changed nine times. The White Paper proposes additional rules that seek to limit the issue of preferred shares by non-taxpaying corporations. The co-chairmen of the Joint Committee on Taxation of the Canadian Bar Association and the Canadian Institute of Chartered Accountants appeared before the Finance Committee and emphasized the extraordinary complexity of the proposed rules:

... the rules are becoming incomprehensible, and the preferred share rules are a prime example of that.

You go through those preferred share rules, and you have to determine whether you have got a term preferred; a short-term preferred; a collateralized preferred; a taxable preferred; a taxable SFI share; or a grandfathered share. Some of them can be in two or three of those categories, and others may be in none of those categories.

If the complexity is not daunting enough, moreover, the Committee has already heard of schemes to avoid the proposed rules and doubts that these rules, even if corrected, will stop the abuse.

Reasons For After-Tax Financing

A corporation that does not pay tax often issues preferred shares as a substitute for debt financing to reduce its costs of borrowing. Lenders of funds to corporations who demand the same after-tax yield whether the funds are invested in debt or equity, usually charge the borrower a lower cost of funds because they have been able to obtain the yield as a dividend rather than as interest.

The borrowing corporation that issues debt is indifferent to any deduction for the interest expense it incurs because it is non-taxable. Whereas the lender in this transaction would pay tax on the interest income, taxable dividends, on the other hand,

are presumed to be paid out of profits that have already been subject to a tax and would be eligible for a dividend tax credit (for the individual shareholder) or an intercorporate dividend deduction (for the corporate shareholder).

This method of equity financing has increased as the number of tax preferences in the *Income Tax Act* have multiplied. The absence of any corporate loss transfer system in Canada has also aggravated the problems arising from the use of after-tax financing. In this regard, the Committee notes that although the government published a discussion paper in conjunction with the May 1985 budget putting forward a proposal that would allow the transfer of tax losses within a commonly-owned group of corporations, the White Paper is silent on this subject. The Committee believes that as an integral part of corporate tax reform there is a need for the federal and provincial governments to seek agreement on implementing a tax-loss transfer system in Canada.

The popularity of after-tax financing is, in part, revealed in the proportion of total share issues represented by preferred shares. The following comparison in Table 13 of Canadian and U.S. issues of preferred shares as a percentage of common and preferred stock issues illustrates this country's historical tax advantage regarding preferred shares:

Problems With After-Tax Financing

If the corporation that is distributing dividends on preferred shares is in a taxpaying position, the tax system works properly. For example, the dividend tax credit and the intercorporate dividend deduction provide an incentive for individuals and corporations respectively to invest in Canadian equity with little or no double taxation. The *Income Tax Act* provides little incentive in this situation for the corporation to choose preferred share financing over debt. If, however, the corporation is not paying taxes, it can obtain an advantage by issuing preferred shares and paying dividends out

Table 13
Comparison of Canadian and U.S. Issues of Preferred Stock
as a Percentage of Common and Preferred Stock Issues

	Canada	United States	Difference
		(per cent)	
1965	46.6	31.9	14.7
1970	34.2	16.1	18.1
1975	57.6	31.8	25.8
1980	47.0	16.1	30.9
1981	54.8	6.7	48.1
1982	45.7	17.6	28.1
1983	25.7	14.3	11.3
1984	62.5	18.2	44.3
1985	54.4	18.3	36.1

Source: Department of Finance.

of income that has borne little or no corporate tax because tax relief for a notional amount of corporate tax is still provided to the recipient shareholder. The non-taxpaying corporations have also been able to use the intercorporate dividend deduction as a means of transferring some of their unused tax preferences to unrelated corporations.

In summary, after-tax financing has resulted in the loss of government revenues, in part because corporations have chosen to finance their activities using preference shares that are in essence a debt obligation. At the same time, tax relief is still provided to recipients of taxable dividends from these non-taxpaying corporations.

The White Paper Proposals

The government projects increased revenue of approximately \$400 million annually upon implementation of the new preferred share rules, intended to restore the integrity of the tax distinction between equity and debt securities and prevent further tax preference transfers between corporations. The White Paper proposes to levy on a corporation a 25 per cent tax on dividends paid on certain taxable preferred shares and a 10 per cent tax on certain corporate recipients of the dividends. The corporation may elect to pay a 40 per cent tax on the dividends paid, in which case no additional tax is imposed at the recipient shareholder level. The 25 per cent basic rate of tax is designed for dividends targeted for the individual market and reflects the value of the dividend tax credit. For the issuing corporation paying taxes, the tax can be applied indirectly as a deduction to corporate income tax payable. Accordingly, it does not represent a net cost to an otherwise taxpaying company. However, a significant cost is imposed on the non-taxpaying corporation and on the company which pays insufficient income tax to fully offset the 25 per cent tax.

The exemption of up to \$500,000 of preferred share dividends for any group of corporations is intended to allow small business and venture capital start-up companies continued use of preferred shares as an integral part of financing arrangements. Depending on share prices, this exemption permits the issuance of \$5 million or more in preferred shares without taxes on dividends. Dividends paid to a shareholder with a substantial interest in the paying corporation will not be subject to either the 25 or 40 per cent tax on dividends received by certain corporations. Generally speaking, shareholders will have a substantial interest in a corporation if they are related to the corporation or if they own shares representing at least 25 per cent of the votes and value of all issued shares of the corporation.

Recommendations

The Committee recognizes that the issue of preferred shares is a useful and acceptable method for raising corporate funds. Nevertheless, it believes that the provision of tax relief to recipients of taxable dividends from non-taxpaying corporations is inappropriate, particularly when it contributes to the sale of tax preferences.

The Committee is not satisfied with the proposed rule or with some of the designated exceptions such as the \$500,000 exemption, which it believes is considerably

above the capital needs of most small businesses. Further, the \$500,000 exemption will be open to large as well as small corporations, subject only to a claw-back provision applicable to the payment of over \$1 million of dividends annually. This effectively permits a modicum of continued after-tax financing for all corporations at an indeterminate cost to the federal treasury. Overall, the Committee believes the \$500,000 exemption is too generous an allocation of tax support for corporate financing. A more appropriate mechanism would be one that offered a lower level of exempted dividends or that was directed to currently non-taxable firms of a specific size. It is not clear, however, which companies the government intended to benefit from the exemption.

Therefore, the Committee recommends:

- 50. That the \$500,000 exemption of preferred share dividends for any group of corporations be reduced to a lower level of exempted dividends or be available only to non-taxable firms of a specific size.**

In spite of its earlier endorsement of the objectives of the proposed rules, the Committee questions why the government did not adapt the proposed rules to include common equity dividends. The Canadian tax system is an anomaly among integrated tax systems in that it offers a tax credit to individual shareholders without reference to actual corporate taxes paid. Furthermore, the intercorporate dividend deduction, which is designed to prevent double taxation when dividends pass between corporate entities, is also available to the corporate shareholder without reference to actual taxes paid on the part of the payer corporation. Both instances represent an unacceptable tax expenditure. The government's proposed rules deal with this fundamental problem in the case of preferred share dividends, but not for dividends on common equity.

The Committee also reviewed advance corporation tax on dividend distributions used by nations, such as Australia, which have tax systems characterized by partial or full integration. These nations levy an advance corporation tax on all dividends to ensure that all surplus from which dividends are distributed has been subject to corporate tax. Thus, in these jurisdictions, an advance corporation tax acts like a minimum tax, or a prepayment of tax that is later offset against a corporation's mainstream liability. To the extent the corporation is in a non-taxpaying position, the advance corporation tax remains effective and tax credits compensate shareholders for the full value of the advance corporation tax paid.

Department of Finance officials advised the Committee that numerous difficulties interfere with the possible imposition of a comprehensive advance corporation tax on all Canadian dividend distributions. Chief among these was the inability of foreign shareholders to obtain Canada's dividend tax credit because the credit is a subsidy designed to encourage equity investment in domestic corporations only. This would prove especially critical for those shareholders residing in the United States because of the significant level of American investment in Canada. Officials indicated that one country with an advance corporation tax, the United Kingdom, has extended partial dividend relief to foreign direct and portfolio investors under certain double tax treaties, including those with Canada and the U.S.

Although the Committee appreciates the potential tax treaty implications involved in this issue, it has concluded that this problem alone should not preclude the introduction of an advance corporation tax in Canada. The experience of the 1986 tax reform in Australia — another country with a high level of foreign ownership — provides Canada with an alternative to both the status quo and the White Paper proposals. As part of Australian tax reform, the system of imputation was altered to operate for residents and yet included an advance corporation tax without violating the recently negotiated Australia-U.S. tax treaty. The Australian method of segregating dividends into two classes for the purposes of determining tax payment and the subsequent provision of tax credits to shareholders guarantees against revenue loss and provides no disincentive for dividend distributions by corporations. Dividends that have borne a tax (qualifying dividends) and are paid to non-resident shareholders are exempt from the normal dividend withholding tax. On the other hand, dividends that have not borne a tax (non-qualifying dividends) are liable for the dividend withholding tax. Because of the qualifying dividend exemption, Australia is able to restrict its tax credit to residents. There are indications that the new Australian imputation system could prove acceptable to U.S. treaty negotiators.

The Committee notes that another approach that could avoid the potential tax treaty implications of Canada introducing a comprehensive advance corporation tax would be for the tax not to apply to dividend payments to non-resident shareholders.

The Committee also suggests a review of another model of advance corporation tax that draws a distinction between tax-paid and non-tax-paid surplus. Whereas a corporation may pay dividends out of tax-paid surplus without restriction, dividends paid in the absence of a tax-paid surplus balance would be subject to an advance corporation tax. Tax-paid surplus represents the net surplus of the corporation as calculated on a tax basis, accumulated over time. The implementation of such an advance corporation tax would require some system of accounting for pre-implementation surpluses.

In summary, the Committee believes that the following ideas will be fundamental in the design of a successful advance corporation tax for Canada:

- the advance corporation tax rate should be close to the rate of dividend tax credit at the shareholder level;
- when an advance corporation tax is introduced, the proposed preferred share dividend tax rules should be revised to form a component of the advance corporation tax;
- the excess of advance corporation tax over current taxes should be allowed to be carried back and forward for a reasonable period of time.

Therefore, the Committee recommends:

- 51. That the government take steps immediately to introduce a comprehensive advance corporation tax on common and preferred share dividend distributions.**

Financial Intermediaries

The White Paper includes proposals aimed at shifting the tax burden to profitable corporations. Financial institutions were targetted as the type of corporation that has paid little tax because of existing tax provisions, and specific proposals in the White Paper attempt to ensure that these institutions begin paying an appropriate share of taxes. The Committee agrees with the intent of the proposals but believes they are inadequate. Accordingly, this Report introduces a different approach to the taxation of financial intermediaries.

White Paper Proposals

The tax reform proposals affecting financial intermediaries fall into two areas: the treatment of reserves generally and the taxation of life insurance companies specifically. The overall objectives of the proposals relating to reserves are to ensure that tax deferral opportunities are eliminated and that there is consistency of tax treatment among competing financial institutions. The proposals relating to life insurance companies are intended to raise more tax revenues by ensuring that the investment income accumulating over the years in the policy reserves of life insurance companies bears a reasonable level of tax and, in the case of life insurance companies which operate both in Canada and abroad, to ensure that an appropriate portion of the insurer's net investment income is attributed to the Canadian business and thus is subject to Canadian taxation.

Reserves are a key factor in determining the taxable income of financial intermediaries. In general, a deduction may be claimed for a reserve to reflect either a reduction in the value of an asset, e.g., a reserve for loan losses, or an increase in a liability, e.g., a reserve for future claims under insurance policies. In line with the government's proposals that financial institutions will be allowed to compete in significantly more areas than previously, the tax reform proposals are intended to eliminate the different treatment of reserves for tax purposes for institutions competing in the same marketplace.

The White Paper identifies the following deficiencies in the tax treatment or reserves of financial intermediaries.

- The deduction for loan losses allowed to banks is different from that allowed for competing financial institutions and provides an opportunity for the deferral of tax.
- Trust, mortgage loan, insurance companies and credit unions are allowed a reserve for doubtful accounts based on a formula which generally exceeds actual experience.
- Insurance companies are allowed a reserve in one year for policy dividends to be paid in the next year, even though only a portion of the liability will have accrued at the year-end.
- Insurers do not always discount their liabilities in respect of expected future claims and thereby claim higher reserves than the value of their future liabilities.

As a general approach, the government proposes that loan loss reserves of financial intermediaries be based on their actual experience rather than on arbitrary formulas. Adjustments will also be made to insurers' reserves to better match underlying income and expenses. The proposals will reduce the amount of reserves permitted to financial intermediaries in computing income for tax purposes and as a result, will broaden their tax base. To spread the impact of these changes over a number of years, transition rules will be provided.

The government also proposes to introduce a 15 per cent investment income tax which will apply to investment income accruing to fund insurance liabilities of life insurance companies. This tax is similar to a tax on the investment income of life insurers which was in effect between 1969 and 1978.

The proposed tax will not apply to investment income accruing to fund liabilities attributable to life insurers' annuity business. Furthermore, it will not apply to investment income related to fixed contractual liabilities entered into before January 1, 1988. Deductions will be allowed from the investment income tax base for expenses incurred in earning Canadian investment income and for business income of life insurance companies which is already subject to tax under Part I of the Income Tax Act. The proposed investment income tax will apply to taxation years beginning after June 17, 1987 and ending after December 31, 1987. The rate will be phased in in equal steps over a five-year period.

Finally, the government proposes to alter the rules which exist for determining the amount of gross investment revenue attributable to Canadian insurance businesses carried on by resident multinational life insurance companies and non-resident insurance companies to ensure that an appropriate amount of investment revenue and security gains are subject to taxation in Canada.

The current system for determining the Canadian investment fund of life insurers and for designating investment property will be retained. However, rules similar to the equity-limit rule will be adopted to restrict the amount of rental real estate assets that may be designated by the insurer. In designating assets to the Canadian investment fund, insurance companies will have to meet a value test, a net investment revenue test and a minimum amount of gains test. Rules will also be introduced to ensure that an appropriate portion of an insurer's net investment income is attributed to its Canadian

business. This will be accomplished by requiring that a minimum amount of net investment revenue must be included in Canadian income.

The proposed changes will apply to taxation years beginning after June 17, 1987 and ending after December 31, 1987, and special transition measures will apply.

Financial Intermediaries and the Avoidance of Tax

The Committee has noted that, since 1978, the amount of federal income tax paid by banks, insurance companies and trust companies has declined drastically. On the basis of aggregate industry statistics, the Committee has determined that the federal income tax liabilities of the financial intermediaries have generally been in the range of 1 per cent to 6 per cent of Canadian profits.

In large part, this is because financial intermediaries are highly leveraged, having access to large amounts of depositor assets backed by relatively small amounts of company capital. The ratios of depositor assets to company capital range from 10:1 to 25:1. By utilizing tax preferences sufficiently, including tax-exempt income, the financial intermediaries have been able to reduce their taxable income to negligible amounts within the existing provisions of the *Income Tax Act*. There has been evidence presented of careful selection among tax preferences by financial intermediaries to minimize their income tax liabilities. Furthermore, there has been evidence presented to the Committee that formula reserves for general losses have been about twice as large as appropriate for large, regionally diversified financial institutions, and that actuarial and claims liability reserves have been overly generous for insurance companies. In addition, technical evidence has been presented concerning flaws in the detailed tax calculations for life insurance companies which have resulted in their paying very little tax. Consequently, life insurance companies did not need to rely as heavily on after-tax financing instruments as other financial intermediaries.

The history of Canadian income taxes paid by banks, trust companies and life insurance companies from 1980 to 1985 compared to their reported Canadian income is set out in Table 14. Financial institutions report profits on Canadian operations directly in their annual reports or to Statistics Canada. While information on corporate tax liabilities is not available from Revenue Canada, aggregate industry statistics have been made available to the Committee.

As can be seen, Canadian federal income taxes paid have generally been in the range 1 - 6 per cent of aggregate Canadian profits. All financial intermediaries charge a fee for their services as intermediaries. For asset management, this fee is customarily calculated as a percentage of the margin between the rate of interest paid on deposits and the rate of interest earned on investments. The margin, or pre-tax spread, after expenses ranges on individual products from about one-quarter of 1 per cent to about 1 per cent. Reported margins for the life insurance companies are about one-half of 1 percentage point higher, in part due to differences in income-reporting methods; 15 per cent of *unrealized* common stock gains and 10 per cent of *unrealized* real estate gains are added to realized earnings for reporting purposes.

A further factor is that insurance companies also charge a fee for their services as risk intermediaries. For life insurance, this fee is customarily calculated by providing for a mortality margin between the rate of mortality expected and the rate charged in the contract. At present, the non-investment-related earnings of insurance companies constitute a much larger proportion of their earnings than do the fee earnings of the other financial intermediaries.

The historical profit margins on the Canadian operations of banks, trust companies and domestic life companies are set out in Table 15.

Proposals for Change

By taking advantage of generous tax preferences, financial intermediaries have been able to adjust their taxable income and pay little, if any, tax. One way to increase the taxes paid by these institutions, therefore, is to reduce or eliminate the tax preferences they use. Recommendations in the following four subsections attempt to do so and bring taxable income more in line with actual earnings. This would increase the taxes paid by financial intermediaries under Part I of the *Income Tax Act*.

Canadian Investment Fund

In the case of the multinational Canadian life insurers, a faulty definition of the Canadian investment fund has enabled them to eliminate their Canadian income tax liability because of the effect of foreign policy loans, the year-end timing of the Canadian investment fund calculation, the selection of assets for the fund, and financial reinsurance. In addition, in an environment where interest rates were reasonably stable but fluctuated around certain mean values, or where interest rates were rising, most domestic and multinational life insurers could, through trading activity, generate tax-deductible losses when no real business loss occurred.

For example, assume that a \$100 five-year 10 per cent bond was purchased to back a specific annuity. If interest rates rose one percentage point and the bond was sold at about \$96.30 and replaced by an 11 per cent, five-year bond at par, no economic profit or loss would have been realized. This is because the real market value of the underlying liability should also have been valued at a one percentage point higher rate of interest. For reporting purposes, bond income would be increased by \$0.59 in the first year, \$0.66 in the second, \$0.73 in the third, \$0.81 in the fourth and \$0.91 in the fifth, reflecting the higher interest rate. This would be offset by the amortization of the bond trading loss of \$0.74 each year over the five-year period.

However, for tax purposes the \$3.70 bond trading loss would be recognized immediately and the increase in income would be reported annually over the five-year period. Thus, by recognizing the reduction in the market value of assets at the time of sale for tax purposes while ignoring the reduction in the market value of liabilities, taxable income is reduced significantly. Larger effects can be generated for longer-term bonds.

Table 14

Canadian Taxes Paid Related to Profit of Canadian Operations

	1980	1981	1982	1983	1984	1985
	(millions of dollars)					
Banks						
Aggregate Canadian profits (7 large)	n.a.	916	951	1,641	1,865	1,766
Aggregate Canadian federal income taxes paid (industry)	15	8	7	40	17	n.a.
Trust Companies						
Aggregate Canadian profits (7 selected)	n.a.	78	124	270	303	364
Aggregate Canadian federal income taxes paid (industry)	9	4	19	25	11	n.a.
Life Insurance Companies						
Aggregate Canadian profits (industry)	578	518	552	785	643	945
Aggregate Canadian federal income taxes paid (industry)	26	19	21	25	40	n.a.

n.a. - not available

Table 15

Historical Profit Margins on Canadian Operations

	1981	1982	1983	1984	1985	1986
Banks (7 large)						
Canadian assets (\$ billion)	167	194	200	200	213	230
Canadian profits (\$ million)	916	951	1,641	1,865	1,766	2,110
Profit margin (per cent)	0.55	0.49	0.82	0.93	0.83	0.92
Trust Companies (7 selected)						
Canadian assets (\$ billion)	21.4	28.9	31.6	34.3	40.8	47.7
Canadian profits (\$ million)	78	124	270	303	364	413
Profit margin (per cent)	0.36	0.43	0.85	0.88	0.89	0.87
Domestic life companies (industry)						
Canadian assets (\$ billion)	30.5	34.0	38.0	43.4	47.8	
Canadian profits (\$ million)	234	363	513	632	756	
Profit margin (per cent)	0.77	1.07	1.35 ¹	1.46 ¹	1.58	¹

¹ Life company reported earnings are not comparable because for reporting purposes 15 per cent of unrealized common stock gains (from 1984) and 10 per cent of unrealized real estate gains (from 1986) are added to normal realized earnings. For example, in 1986, between 20 per cent and 25 per cent of several large life insurers' earnings reflected reported unrealized real estate gains for the first time.

Therefore, the Committee recommends:

- 52. That, to ensure taxable income reasonably reflects business income, bond and mortgage trading profits and losses be amortized over the remaining lifetime of the security for all financial intermediaries.**

Financial Reinsurance

The Committee has concluded that in general, the deficiencies in the Canadian investment fund in the existing tax legislation have been corrected by the tax reform proposals, although deficiencies in the Canadian investment fund rules relating to policy loans and timing still remain. Furthermore, in Canada, use of financial reinsurance has been limited in the past because of the ease with which corporate income tax could be avoided through the structural flaws in the *Income Tax Act*. However, in the future, significant tax losses could occur through the use of reinsurance. The Committee notes that there is no proposal in the White Paper to limit these arrangements, other than the general anti-avoidance rule.

Therefore, the Committee recommends:

- 53. That in calculating required Canadian assets, the calculation be made monthly, or at least quarterly.**
- 54. That the calculation of the Canadian investment fund be made in such a manner that an increase or decrease in foreign policy loans does not affect the Canadian investment fund.**
- 55. That the use of financial arrangements, including reinsurance contracts, between financial intermediaries be blocked by a specific anti-avoidance rule similar to section 845 of the U.S. Internal Revenue Code.**

For reference, section 845 of the U.S. Internal Revenue Code is set out in the appendix to this chapter.

General Loan Loss Reserves

The Committee heard evidence that general loan loss reserves calculated by using the existing formula were generally twice as high as required in normal circumstances. The White Paper proposes to correct this situation by requiring reserves to be set up using historical loan loss ratios and recovery rates and releasing the excess reserves into income over five years. The Committee supports the proposed five-year transition.

It seems to the Committee that this approach could lead to underprovision after a long period of business expansion, which could jeopardize solvency in a severe national, regional or sectoral economic recession. Conversely, the historical ratio approach could lead to overprovision in recovery years following a recession.

In addition, recent events have indicated that small financial institutions with regional or industrial concentration of risk could require the provision of additional loan loss reserves. The Superintendent of Financial Institutions should be in a position in such cases to *require* additional loan loss reserves to be set up which should be recognized for tax purposes.

Moreover, for multinational financial intermediaries, there has been considerable flexibility in allocating general loan loss reserves by country. This could lead to a reduction in Canadian income tax because of the interaction with foreign withholding taxes.

Therefore, the Committee recommends:

- 56. That authorized general loan loss reserves continue to be set by formula but that the level of the reserves be reduced to one-half of its current level over five years.**
- 57. That the Superintendent of Financial Institutions be allowed to require additional specific loan loss reserves because of factors such as geographical, industrial or sovereign concentration of risk and that these reserves be tax-deductible.**
- 58. That methods be developed to allocate loan loss reserves by country for income tax purposes.**

Claims Reserves

Property and casualty insurance companies traditionally set up claims reserves not taking into account the time value of money, that is, without an interest factor. To the extent that the estimates of ultimate claims losses are accurate, this results in an overprovision for claims reserves and a deferral of tax revenues.

The White Paper proposes to require all claims loss reserves to be calculated so as to include an allowance for interest.

However, the Committee has heard evidence that the amount of reserves released into taxable income would greatly exceed the Finance Department's estimates. The Committee has also heard recent evidence from the Deputy Superintendent of Financial Institutions questioning the adequacy of existing claims reserves.

Similarly, with respect to life insurance reserves, there has been some question as to whether there is adequate provision for adverse development in mortality as a result of the spread of AIDS.

Therefore, the Committee recommends:

- 59. That the principle of requiring property and casualty claims reserves to be established using interest be accepted.**
- 60. That structured settlement claims reserves be required to use interest immediately.**
- 61. That property and casualty claims reserves for existing but unsettled claims be allowed to run off as settled.**
- 62. That future claims reserves be required to be established using interest as soon as the Superintendent of Financial Institutions is satisfied that appropriate standards have been established by the Canadian Institute of Actuaries to ensure adequacy of reserves.**

- 63. That increases in claims reserves or actuarial reserves required by the Superintendent of Financial Institutions for solvency purposes be tax-deductible.**

An Alternative Minimum Margin Tax

Experience has demonstrated that financial intermediaries have historically been successful in avoiding paying corporate income taxes imposed under Part I of the *Income Tax Act*. To ensure that an appropriate level of tax is paid by financial intermediaries, an alternative minimum tax should be introduced. Moreover, financial intermediaries are unique among Canadian corporations in pricing their services as a spread or margin on assets managed or risk underwritten.

Therefore, the Committee recommends:

- 64. That effective January 1, 1988, the government institute a minimum corporate tax on the Canadian earnings of banks, trust companies and life insurance companies to be called the "alternative minimum margin tax" and that this tax be based on the margins of such financial intermediaries.**

The Committee believes that the alternative minimum margin tax is an equitable way in which to raise income taxes from financial intermediaries. Immediate implementation is recommended, recognizing that the White Paper recommends the full removal of capital taxes from financial institutions in 1988.

The objectives of the alternative minimum margin tax are as follows:

- a stable source of tax revenue;
- neutrality between financial institutions;
- neutrality for Canadian operations;
- simplicity;
- operation of a tax that is related to ability to pay; and
- no undue political or fiscal hazards.

Banks, life insurance companies and trust companies would be subject to the alternative minimum margin tax. In preparing its report, the Committee considered extending the alternative minimum margin tax to property and casualty insurers, credit unions and caisses populaires but decided against such an extension. Property and casualty insurers generally appear to be paying income taxes which are already in excess of the alternative minimum margin tax level. Credit unions and caisses populaires are by and large below the minimum threshold level at which the alternative minimum margin tax applies.

The Committee notes that there is some incentive for large institutions to self-insure or self-administer pension funds, but feels that the potential revenue losses arising from such a shift would be minimal but should be monitored.

The alternative minimum margin tax would be levied at the rate of 0.15 per cent of covered Canadian assets plus, in the case of life insurance companies, \$0.10 per \$1,000 direct written sum assured in excess of \$2.5 billion. The alternative minimum margin tax would be limited to 28 per cent of the Canadian proportion of worldwide consolidated reported earnings before income taxes.

Covered Canadian assets would be gross Canadian assets in excess of \$250 million excluding the following:

- assets held in trust or only managed, such as segregated funds;
- common and preferred shares and small business development bonds which would produce tax-exempt income;
- non-revenue-producing assets such as non-interest-bearing bank deposits, accounts receivable, prepaid expenses and deferred charges; and
- debt investment in other companies in which there is a direct equity investment, for example, 20 per cent or greater.

Covered Canadian assets would include assets managed in subsidiary mortgage and real estate companies.

Because the alternative minimum margin tax is a minimum tax, the federal corporate income tax liability of a financial intermediary would be the greater of the alternative minimum margin tax or the federal income tax determined under Part I of the *Income Tax Act* net of foreign tax credits. Any alternative minimum margin tax paid in a year in excess of the financial intermediary's net federal income tax liability for that year could be carried back three years and forward seven years to be applied against its net federal income tax liability in excess of its alternative minimum margin tax liability for those years.

A number of technical considerations need to be resolved, for example, the definition of Canadian assets, Canadian proportion of earnings, and earnings themselves. However, it is anticipated that the technical aspects of the alternative minimum margin tax will be easier to administer than the corporate income tax on financial intermediaries, and the alternative minimum margin tax will be less susceptible to tax planning than the corporate income tax. The Committee acknowledges that it may be necessary to vary some of the technical aspects of the alternative minimum margin tax following further consultation.

Investments in after-tax and tax-sheltered assets, such as preferred shares, will no longer reduce the overall federal tax liability of financial intermediaries after the alternative minimum margin tax is implemented. Therefore, the Committee recommends:

- 65. That the limits on equity and real estate investment recommended in the White Paper be eliminated.**
- 66. That the 10 per cent/5 per cent/2 per cent ownership limitations on certain listed preferred shares and taxable SFI shares be reviewed to assess whether they would still be required given the adoption of the alternative minimum margin tax.**

To test the alternative minimum margin tax concept for neutrality and stability, detailed tax calculations were made for all major Canadian banks, trust companies and life insurance companies individually over a five-year period. Aggregate calculations by industry are shown in Table 16. Analysis prepared for the Committee shows that for 1986, the alternative minimum margin tax revenue paid by financial intermediaries would have exceeded \$500 million. A breakdown of this amount for banks, trust companies and life insurance companies, and comparable total amounts of alternative minimum margin tax that would have been paid by financial intermediaries for the years 1982 to 1986 are contained in Table 17.

Table 16

**Aggregate Ratios by Industry of Alternative Minimum Margin Tax
to Pre-Tax Earnings of Canadian Operations**

Year	1982	1983	1984	1985	1986
	(per cent)				
Banks	22.6	16.7	16.0	17.4	15.7
Trust companies	27.4	15.9	17.2	16.6	17.5
Life insurance companies	19	18	16 ¹	15 ¹	14 ¹

¹ Life company reported earnings are not comparable because for reporting purposes 15 per cent of *unrealized* common stock gains (from 1984) and 10 per cent of *unrealized* real estate gains (from 1986) are added to normal realized earnings.

Investment Income Tax

The White Paper proposes to reinstitute "an improved version" of the tax on the investment income of life insurers which was in place between 1969 and 1978. This investment income tax was developed by the Carter Commission as a proxy tax to be levied at the insurance company level against the tax-free inside build-up in insurance and annuity policies.

Originally, the investment income tax, described as the Part XII tax, was 15 per cent of gross investment income less the following deductions:

- specific investment expenses;
- one-half of general insurance expenses;
- business income;
- a tax credit for one-half of provincial premium taxes; and
- taxable amounts reported to policyholders.

In turn, the Part XII tax was deductible from business income in determining corporate income tax liability.

In 1978, the Part XII tax was eliminated when a new Part I tax was enacted which was expected to yield considerable revenue. However, because of the flaws described above in the revised Part I tax, virtually all corporate income tax was forgone for life insurance companies after 1978.

Alternative Minimum Margin Tax Illustrations

In the 1981 federal budget, proposals were made to tax the inside build-up of all insurance and annuity contracts directly at the policyholder level. As a result of negotiations between the life insurance industry and the Department of Finance, the Department proposed splitting insurance and annuity contracts into two categories:

- Because of the nature of the products offered since 1981, almost all non-exempt policies are in a gain position by the end of the first triennial reporting period. Therefore, reporting only the gains on the inside build-up is unlikely in practice to penalize policyholders who may have accrued losses. However, most policyholders who purchase exempt policies are not in a net gain position until between 8 and 13 years after the policies are issued in the case of a whole-life policy and are never in a net gain position in the case of a term policy. Currently, there is no triennial reporting of accrued gains to the holders of exempt policies; however, in the event that an exempt policy is surrendered and a gain is realized, the owner of the policy is subject to tax on the gain at the time of disposition.

The Committee notes that if life insurers were to report both the accrued gains and the accrued losses for exempt policies triennially, there would be a revenue loss to the government.

The Committee's analysis of the proposed investment income tax on life insurance companies has led it to conclude that this tax contains a number of flaws.

Although the investment income tax is ostensibly directed towards interest income related to exempt policies, the proposal as formulated results in the taxation of margins on non-exempt policies together with surplus interest earnings which are already subject to corporate income tax under Part I of the *Income Tax Act*. If this flaw were eliminated, the Committee estimates that the potential revenue derived from the investment income tax would decline by about 50 per cent.

Even for the exempt policy class, all interest earnings are treated as gains. In practice, most policies are designed to cross-subsidize administrative expenses with interest earnings. If, rather than a proxy tax, a direct reporting of the increased accrued gains of policies which are in a gain position were made less an allowance for the fact that actual gains are reported on surrender, the effective tax base of the investment income tax would decline by about 75 to 80 per cent.

In addition, the Committee considers it unacceptable that the proposed investment income tax be applied to gross income without any deduction being allowed for related expenses. Furthermore, no allowance has been made for accrued losses on exempt life insurance policies during the first three or four triennial reporting periods.

Therefore, the Committee recommends:

- 67. That the proposed investment income tax on life insurance companies not be introduced.**

Other Issues

Representations were made to the Committee by the credit union movement that price gains of credit union shares be eligible for capital gains treatment. Currently, all credit union shares are "income units" redeemable at par with annual earnings distributions.

Therefore, the Committee recommends:

- 68. That to the extent that "accumulation unit" shares are permitted in the future by the provinces, capital gains treatment be available in respect of credit union shares.**

The Committee heard evidence that Blue Cross had a large proportion of the health insurance business and paid premium tax on its insurance premiums in the province of Quebec.

Therefore, the Committee recommends:

- 69. That the Department of Finance reconsider whether Blue Cross should continue to be exempt from income tax.**

Appendix to Chapter 7
U.S. Internal Revenue Code

Section 845. CERTAIN REINSURANCE AGREEMENTS

(Sec. 845(a))

(a) **ALLOCATION IN CASE OF REINSURANCE AGREEMENT INVOLVING TAX AVOIDANCE OR EVASION** — In the case of 2 or more related persons (within the meaning of section 482) who are parties to a reinsurance agreement or where one of the parties to a reinsurance agreement is, with effect an agent of another party to such agreement or a conduit between related persons), the Secretary may —

(1) allocate between or among such parties income (whether investment income, premium, or otherwise), deductions, assets, reserves, credits, and other items related to such agreement,

(2) recharacterize any such items, or

(3) make any other adjustment, if he determines that such allocation, recharacterization, or adjustment is necessary to reflect the proper source and character of the taxable income (or any item described in paragraph (1) relating to such taxable income) of each such person.

(Sec. 845(b))

(b) **REINSURANCE CONTRACT HAVING SIGNIFICANT TAX AVOIDANCE EFFECT** — If the Secretary determines that any reinsurance contract has a significant tax avoidance effect on any party to such contract, the Secretary may make proper adjustments with respect to such party to eliminate such tax avoidance effect (including treating such contract with respect to such party as terminated on December 31 of each year and reinstated on January 1 of the next year).

Federal Sales Tax Reform

The White Paper states that: "Pending the replacement of the existing sales tax with a multi-stage tax, changes to the existing federal sales tax are required to correct some of its most serious inequities and to stem the erosion of the tax base through the use of tax avoidance mechanisms." Moreover, "the government is also proposing other sales tax measures which, together with the corporate tax changes, will provide the additional revenues required to proceed with personal income tax reform in a fiscally responsible way."

The Committee concurred with a number of the concerns outlined in the White Paper regarding the current federal sales tax system. However, during the testimony of a large number of witnesses, it became increasingly clear that much more than a band-aid solution was required, if all of the serious inequities in the current federal sales tax system, which have built up over many years, are to be rectified. The testimony of many witnesses such as Canadian Tire Corporation, Limited, who stated that the current federal sales tax system "is plagued by inequities, inefficiencies and administrative complexity", was of great concern to the Committee. Thus, as its primary federal sales tax proposal the Committee recommends:

- 70. That parliament enact a law in 1988 to reform the existing federal sales tax system, such law to become effective as soon as possible thereafter.**

Related Marketing Companies and the Shift to the Wholesale Trade Level

The White Paper proposes that the federal sales tax be applied to marketing companies related to the manufacturer. The proposal is intended to stop the erosion of the sales tax base and consequent loss of revenue that is occurring as manufacturers reduce the value of their products for taxes by setting up their own marketing companies and selling products through them. The problem derives from deficiencies recently brought to light in current legislation that authorizes the Minister of National Revenue to specify a fair price for tax purposes for transactions between related companies. One of the results is distortion of competition between manufacturers selling through related marketing companies and those selling directly to independent distributors.

The testimony before the Committee indicated that the White Paper proposal will not remedy the flaws in the federal sales tax. The nature of the distortions will merely change when the measures are introduced. The current advantage for manufacturers with related marketing companies will be turned into a disadvantage when the sales tax is also levied on the marketing and distribution costs incurred by the marketing companies. As noted by the Commodity Taxation Committee of the Canadian Institute of Chartered Accountants and the Canadian Bar Association, the new related marketing company rules "will discriminate against both Canadian manufactured goods and goods imported into Canada by a related distributor", and that "sales tax payable should be determined by the validity of the price between the parties, and not by their relationship."

It is proposed in the White Paper that federal sales tax will now be levied on such activities of related marketing companies as distribution, warehousing, advertising, promotion and technical assistance, which will not be levied on the same services provided by their competitors in respect of goods purchased from unrelated suppliers. The interim nature of this change in the application of the federal sales tax until Stage Two of tax reform is completed, with the related costs and disruptions to business, was of great concern not only to many witnesses but also to the Committee. The Committee cannot, therefore, support the proposed shift of the sales tax. However, something has to be done to stop the erosion of the tax base. It was suggested that Revenue Canada might go to the courts to have its price-setting powers reinterpreted in a way that would remove the tax advantage of sales through related marketing companies. But this seems an uncertain answer to a pressing problem. The Committee takes the view that the government should seek the power to treat such sales as avoidance transactions. A specific anti-avoidance rule should be enacted that applies to both existing and new related marketing companies and that effectively stops the tax-motivated creation of such companies.

With respect to the move of the federal sales tax from the manufacturers' level to the wholesale level for a limited range of products, the testimony before the Committee indicated that this measure would be discriminatory to the small retailer who purchases from a wholesaler, vis-à-vis his competitor the large retailer, who purchases directly from a manufacturer either in Canada or offshore. This move of the federal sales tax to the wholesale level was of particular concern to such groups as the Canadian Sporting Goods Association, who stated in their brief to the Committee that "the proposed shift of federal sales tax to the wholesale level would provide a very significant competitive advantage to large, integrated retailers (such as department stores)" and "threatens to wipe out small-town retailer profitability and thereby is considered a looming crisis to the trade." In addition, there was strong evidence before the Committee that large sectors of the business community, which would be negatively affected by this measure, could rearrange their affairs in such a way as to avoid the effects of this particular change. Thus, the government would not meet its revenue forecasts for this particular measure.

While the Committee recognizes that the White Paper proposals are designed both to prevent a significant loss of federal revenue and to obtain additional revenues, the Committee has nevertheless concluded that the proposals will create additional major inequities in the market place. Therefore, the Committee recommends:

71. That the proposals to apply the federal sales tax to marketing companies related to the manufacturer and to shift the tax to the wholesale level for a limited range of products not proceed; and that in their place a temporary federal sales tax surcharge of three per cent of taxes payable be introduced, but that this federal sales tax surcharge not be levied on the proposed tax on telecommunication services.

72. That a specific anti-avoidance rule be enacted with respect to related marketing companies.

The Committee acknowledges that these recommendations are not a perfect solution, but the Committee believes they are preferable as an interim solution pending the reform of the whole federal sales tax system.

Tax on Telecommunication Services

The White Paper proposes to extend the federal sales tax to telecommunication services, such as telephone and telex services, at a rate of 10 per cent. The basic line charge for local residential telephone service will not be subject to tax. The federal sales tax on cable and pay television services will be increased to 10 per cent from the present 8 per cent. Additional revenue from these measures is estimated to be \$870 million in a full year.

The Committee heard from a number of witnesses concerning the negative overall effects of the proposed telecommunications tax on both businesses and individuals.

The Committee is concerned that the proposed 10 per cent telecommunications tax will be applied to the residential Touch-tone feature, which is of particular assistance and importance to the aged and the handicapped. Therefore, the Committee recommends:

73. That the residential Touch-tone feature be exempted from the proposed 10 per cent telecommunications sales tax.

It should be noted that the Committee has been advised by officials from the Department of Finance that residential and business subscribers will not be subject to a minimum federal sales tax charge.

Also of special concern to the Committee was the impact of the tax on telephone users in the more remote and isolated areas of Canada, who are far more dependent on long-distance telephone communications. In the 1986 report *Federal-Provincial Examination of Telecommunications Pricing and the Universal Availability of Affordable Telephone Service: Working Papers*, (Ministry of Supply and Services Canada), it is noted that there is not a significant monthly differential in expenditures made on long-distance calls originating from residential urban subscribers vis-à-vis residential rural subscribers (Table 18). However, there is a significant monthly long-distance expenditure increase between subscribers in the "remote North" as defined by Bell Canada, and subscribers in other parts of Canada, which ranged between 205 per cent and 270 per cent (Table 19). Even after taking into account the lower long-distance rates that are already charged in such regions, the Committee recommends:

74. That all telephone subscribers in the "Remote North", all of the Northwest Territories, Yukon, and other remote locations in Canada where year-round road, rail or boat links do not exist be subject to the proposed 10 per cent telecommunications sales tax on long-distance calls to a maximum of \$3 per month.

Table 18

**Long-Distance Charges on Average Residential
Monthly Subscribers' Bills (1985 or 1986)**

	P.E.I.	N.S.	N.B.	Ont./Que.	Alberta	Nfld.	Man.	Sask.	B.C.
Urban	\$18.87	\$20.93	\$21.88	\$19.26	\$29.28				
Rural	\$17.36	\$20.62	\$17.14	\$21.50	\$31.70				
Urban/Rural						\$22.85	\$13.88	\$28.05	\$22.74

Source: *Federal-Provincial Examination of Telecommunications Pricing and the Universal Availability of Affordable Telephone Service: Working Papers* (Ministry of Supply and Services Canada, October 1986).

Table 19

**Average Monthly Long-Distance Revenue Per Network Access Service
as reported by Bell Canada for 1978-84**

Region	1978	1979	1980	1981	1982	1983	1984
Remote Northern Ontario	\$36.79	\$48.36	\$54.81	\$57.44	\$71.71	\$76.47	\$89.45
Northern Quebec	\$33.20	\$38.10	\$43.31	\$48.07	\$57.77	\$66.34	\$74.02
Northwest Territories	\$43.13	\$51.84	\$54.78	\$58.65	\$67.35	\$71.96	\$76.43
Average company revenue	\$13.83	\$15.63	\$17.16	\$19.95	\$19.79	\$21.20	\$24.25

Source: *Federal-Provincial Examination of Telecommunications Pricing and the Universal Availability of Affordable Telephone Service: Working Papers* (Ministry of Supply and Services Canada, October 1986).

Accelerated Remittances

The White Paper proposes to accelerate the remittances of employee source deductions, individuals' quarterly income tax instalments, and federal sales and excise taxes.

Employee Source Deductions

The changes proposed in the White Paper apply to the remittance of deductions withheld at source in respect of personal income taxes, unemployment insurance premiums and Canada Pension Plan contributions. Starting in January 1990, larger employers with average monthly remittances of \$15,000 or more will be required to remit employee source deductions four times a month. This represents a further acceleration in the payment of the remittances by such employers over the twice-monthly basis proposed in the February 1987 budget, starting in January 1988.

Some groups have indicated to the Committee that the \$15,000 threshold is too low. Based on an average rate of withholding of, say, 30 per cent, this equates to an annual payroll of \$600,000. Evidence provided by Revenue Canada indicated that the proposed change should only affect 45,000, or 4 per cent, of the approximately 1.2 million employers making remittances.

A concern expressed by the Canadian Payroll Association was that the White Paper proposals would require prepayment of source deductions. In the case of semi-monthly or monthly payrolls, for example, the proposals were interpreted to require advance payments of the source deductions on a weekly basis. This interpretation was not intended and the Department of Finance has confirmed that the requirement to "pay weekly" is relevant only in relation to the day in the month on which the pay period ends. Therefore, as Table 20 reflects, the source deductions for a pay period will be due three days after the end of the week in which the pay period ends.

Quarterly Instalments

The White Paper proposes that, commencing in March 1990, individuals who make quarterly instalment payments of tax will be required to pay their instalments on

Table 20

Acceleration of Employee Source Deductions

Pay period ending during days of the month	<u>Remittance Due Dates</u>		
	Current system (until end of 1987)	February 1987 budget proposals (1988 and 1989)	White Paper (1990 on)
1st - 7th	15th of next month	25th of current month	10th of current month
8th - 14th	15th of next month	25th of current month	17th of current month
15th - 21st	15th of next month	10th of next month	24th of current month
22nd - last	15th of next month	10th of next month	3rd of next month

the 15th of March, June, September and December instead of at the end of each of these months.

A concern has been expressed by some senior citizen groups that interest earned on Canada Savings Bonds (CSBs) should be excluded from the calculation of tax instalments. The main argument is that the interest is only paid annually and consequently, this creates financial difficulty for seniors to pay tax instalments on a quarterly basis. The most recent Taxation Statistics (1984) published by Revenue Canada, Taxation indicate that bond interest (not restricted to CSBs) accounts for approximately 14 per cent of the income of individuals over 64 years of age, while the average tax paid by seniors was about \$3,500. *Forum des citoyens âgées de Montréal* estimated that bond interest accounts for approximately six per cent of a senior's income, while bank interest accounts for 20 per cent. As it appears that CSB interest is not a significant portion of seniors' investment income, the Committee has concluded that it would not be appropriate to provide special rules for tax instalments on CSB interest.

Sales and Excise Taxes

Currently, collectors of sales and excise taxes are generally not required to remit the tax until the end of the month following the month in which goods are sold, although the liability to pay the tax arises when the sale is made. Certain collectors are allowed to remit these taxes quarterly or semi-annually.

To improve the government's cash flow and to benefit from a one-time revenue gain of \$1.6 billion, the White Paper proposes that, commencing with sales in April 1988, taxpayers with average monthly sales and excise taxes payable of \$1 million or less, remitting on a monthly basis, will be required to remit taxes by the 21st day of the month following the month in which the goods were sold. Taxpayers currently remitting on a quarterly or semi-annual basis will be required to make the remittance by the 21st day of the month following the quarter or six-month period in which the goods were sold.

Taxpayers whose average monthly liability for sales and excise taxes exceeds \$1 million will be required to make payments on a semi-monthly basis. This proposal will affect fewer than one percent of taxpayers.

Recognizing the need for improved cash flow for the government, the Committee agrees with the White Paper proposals accelerating the remittances of employee source deductions, individuals' quarterly income tax instalments, and federal sales and excise taxes.

Method of Making Remittances

Historically, when a taxpayer made a remittance to Revenue Canada, it was deemed received by Revenue Canada on the day it was mailed. The February 1987 budget proposed that amounts remitted after 1987 would be deemed received on the day the Receiver General for Canada actually received the remittance. Given the Committee's acceptance of the proposals for accelerated remittances, which in the case of employee source deductions will be due three days after the end of a pay period, it does not appear appropriate for taxpayers to have to ensure that their remittances are received by the Receiver General by the due date.

Consideration should therefore be given to allowing taxpayers to make all forms of remittances to the Receiver General for Canada through members of the Canadian Payments Association (e.g., chartered banks, trust companies etc.) with any costs associated with making payments in this fashion being borne by the government. Provision should then be made to deem that payment is received by the Receiver General at the time the taxpayer makes the payment to a member of the Canadian Payments Association.

In view of the proposals for accelerated remittances to enhance cash flow for the government, the Committee recommends:

- 75. That a formal system, financed by the government, should be established to allow for members of the Canadian Payments Association to be recognized as authorized tax collection agents of the government.**
- 76. That payments made by taxpayers to the Receiver General for Canada should be deemed to be received when paid to a member of the Canadian Payments Association.**

Tax Avoidance and Compliance

General Anti-Avoidance Rule

Few subjects in the White Paper attracted as much attention as the proposed general anti-avoidance rule. The Committee heard strong objections to the introduction of this proposed rule from groups such as the Canadian Organization of Small Business, Canadian Federation of Independent Business, Canadian Bar Association, Canadian Petroleum Association, the Canadian Institute of Chartered Accountants, Retail Council of Canada, and the Canadian Cattlemen's Association. Other organizations such as the Canadian Federation of Labour approved of the government's introduction of the proposed general anti-avoidance rule.

The Existing Law and the Stubart Decision

The Income Tax Act contains more than a dozen specific anti-avoidance provisions to counter tax evasion and avoidance arrangements. In addition to these specific measures, the Income Tax Act contains general anti-avoidance rules, one of which is contained in subsection 245(1):

245(1) Artificial transactions. – In computing income for the purposes of this Act, no deduction may be made in respect of a disbursement or expense made or incurred in respect of a transaction or operation that, if allowed, would unduly or artificially reduce the income.

This provision has been the subject of extensive judicial interpretation, which has focussed on the meaning and scope of the words “artificial” or “undue”. For example, the Supreme Court of Canada in *Stubart Investments Limited v. The Queen* rejected Revenue Canada's assertion that a transaction could be disregarded for tax purposes where no “business purpose” existed. The court developed three broad interpretative guidelines to enable other courts to interpret tax legislation. The first rule provides that where the facts reveal no bona fide business purpose for the transaction, subsection 245(1) may be found to be applicable depending on all the circumstances of the case. The third guideline further provides in part, that the formal validity of a transaction may be insufficient where the provisions of the *Income Tax Act* necessarily relate to an identified business function. Commenting in the *Stubart* case on the effectiveness of these rules in countering tax avoidance, Mr. Justice Estey said:

“These interpretative guidelines, modest though they may be, and which fall well short of the bona fide business purpose test advanced by the respondent, are in my view appropriate to reduce the action and reaction endlessly produced by complex specific tax measures aimed at sophisticated business practices, and the inevitable, professionally-guided and equally specialized taxpayer reaction.” (*Stuart Investments Limited v. the Queen*)

The Proposed Law

The White Paper states that the current law is “inadequate to deal with a number of blatant tax avoidance arrangements,” and it contains a new statutory provision. Generally speaking, this new general anti-avoidance rule in subsection 245(1) will provide that an avoidance transaction, as defined, must be ignored for tax purposes. A taxpayer’s tax position will be determined without reference to the transaction, and the White Paper states that it is intended to be a “provision of the last resort” and not an “alternative to other specific anti-avoidance provisions”. For the purposes of the new rule, an avoidance transaction will be defined in a way that introduces a statutory business purpose test and the statutory concept of a “step transaction” into Canadian tax law. The White Paper also states that the Minister of Finance believes a penalty for participation in an avoidance transaction is desirable and that the calculation of the penalty could be based on a specific percentage of the amount of tax deferred, avoided or reduced in a taxation year as a consequence of the avoidance transaction.

The White Paper emphasizes that the enactment of the proposed section 245 has a number of benefits. It is not intended to interfere with legitimate commercial and family transactions. Furthermore, this rule is expected to protect the tax base and the fairness of the tax system and to eliminate the need for certain specific anti-avoidance rules that may now be deficient or have seldom been applied.

Representations to the Committee

The various briefs and testimony of the witnesses reflected two types of criticisms. Overall, many witnesses and briefs argued that there is no need for the proposed general anti-avoidance rule because it will create significant difficulties and uncertainty for Canadian business. Of particular concern was the proposed introduction of a statutory business purpose test. Specific criticisms also focussed on the language of the proposed rule and the possible application of penalties to avoidance transactions.

The following is a summary of the critical testimony about the proposed general anti-avoidance rule and the reasons advanced why the introduction of a statutory business purpose test would be inappropriate:

- (a) The proposed rule could disallow certain transactions that otherwise are consistent with the object and spirit of the *Income Tax Act* because these transactions expressly lack a business purpose and are designed to serve only a social or economic purpose.
- (b) In the *Stuart* case, Mr. Justice Estey rejected the proposition that the courts should develop the independent or bona fide business purpose test as a canon of construction of tax statutes and stressed the need for a more appropriate

principle of interpretation that requires a determination of the “object and spirit” of a statutory provision. Witnesses argued that this test was adequate and that the three Stubart guidelines are sufficient together with other established canons of construction such as “sham” and “ineffective transaction” to counter tax avoidance.

- (c) There will be a climate of uncertainty for all taxpayers because the repeal of the existing ss.245(1) may force the courts to abandon their reliance on established jurisprudence relating to phrases used in this subsection and modify existing practices of interpretation. Some witnesses expressed concern about the willingness of the courts to interpret new terms based on the explanatory notes attached to the White Paper because, in previous years, these documents have not been used by the courts as an aid to interpretation. Even if the courts chose to do so, recourse to these documents would only occur in the event there was an ambiguity or a conflict in the plain meaning of a provision. Similarly, the courts may only use a “general purpose” subsection in a tax statute such as ss.245(6) as an interpretative aid to assist in explaining the “purport and object” of a substantive provision such as ss.245(1). New terms such as “artificial tax avoidance” and “primarily for a business purpose” would require clarification. All of these factors would force both taxpayers and Revenue Canada to wait for several years until superior court decisions are released on specific aspects of the proposed rule. This was confirmed by Mr. Perry Anglin, Assistant Deputy Minister, Legislative and Inter-Governmental Affairs Branch who testified that: “Until we see the framework within which any of these terms ends up, and until we have actual cases and legal advice from the Department of Justice, it is very difficult for us to tell you what any one of these terms is going to mean.”
- (d) Compliance costs for taxpayers and the government will increase substantially. For example, taxpayers will likely not proceed without advance rulings from Revenue Canada which may, in turn, require additional personnel to service this need. The time required to obtain rulings may also increase. The Joint Committee on Taxation of the Canadian Bar Association and the Canadian Institute of Chartered Accountants concluded: “. . . the abrupt introduction of such a wide sweeping general anti-avoidance provision would have a significant effect on commercial transactions in Canada.”
- (e) The constitutionality of the proposed rule may be challenged as being void for uncertainty, contrary to the rule of law, or inconsistent with the Charter of Rights and Freedoms. The Committee was advised that, prior to 1984, the Income Tax Act contained another general anti-avoidance section (s.246) which contained broadly cast terms that were believed to be inconsistent with the Charter. Before the merits of this position were ever litigated, the government voluntarily withdrew s.246.
- (f) The proposed rule appears to fall outside the spirit of the Declaration of Taxpayer Rights which specifically allows a taxpayer to arrange his affairs to pay the minimum amount of tax. The Canadian Federation of Independent Business told the Committee that: “The general anti-avoidance rule if implemented would reduce the Declaration of Taxpayer Rights to a farce. The solid parliamentary work which served to stop the abusive behaviour of Revenue Canada will quickly be forgotten should this measure take effect.”

- (g) In jurisdictions such as Britain and the United States, the courts, rather than the legislative branch, developed a business purpose test. This approach allowed taxpayers to become accustomed gradually to the rule.
- (h) Although the existing laws and judicial pronouncements are adequate, Revenue Canada and the Department of Justice have not exercised their present powers under the Act to the fullest extent the existing law provides. The Joint Committee on Taxation of the Canadian Bar Association and the Canadian Institute of Chartered Accountants submitted to the Committee that in their view: "If there is a deficiency in the present ability of the government to defeat artificial transactions it is not really in the law, but in our view it is an apparent unwillingness or inability of the Department of National Revenue and the Department of Justice to use the available tools to enforce the law."

Officials of the Department of Finance testified to the Committee that the enactment of a new general anti-avoidance provision is necessary. They submitted that specific rules are not effective in countering tax avoidance for three reasons: specific anti-avoidance rules create large problems of perceived unfairness in the public at large, since transactions which are completed or nearly completed are often grandfathered when the new rule is introduced; specific rules add complexity to the Act; and specific rules are often little more than roadmaps to sophisticated taxpayers who quickly contrive new means to circumvent the law.

The Department also believed that the new general anti-avoidance rule was required because the guidelines set out by Mr. Justice Estey in the *Stuart* case were not founded on a business purpose test. Mr. Allan Short, General Director, Legislation, said: "What we are attempting to do is by legislation ensure that the business purpose test which really is the same in the United States as in the United Kingdom will apply in Canada so that a transaction that has no purpose other than a tax avoidance purpose will not be recognized". He cited the "capital dividend account strips" and commodity straddles as examples of transactions that might be the subject of the proposed rule.

Recommendations

In this Report the Committee has already endorsed the adoption of specific rules to stop certain transactions. The Committee however believes that there is also a clear and urgent need for the government to adopt a more effective general anti-avoidance rule to complement these other specific anti-avoidance rules. The inability of government to effectively stop tax leakage under the current rules is amply demonstrated by the constant stream of press releases announcing new rules to close loopholes which are emerging with ever greater frequency as tax law becomes more and more complex. Unfortunately, specific rule changes generally serve to close the gate after the horse has bolted. Although the Committee believes that specific anti-avoidance rules are required, it also acknowledges that the proliferation of specific rules increases the complexity of tax laws and the possibility that they may be deficient in stopping all possible manipulations of a particular provision. The continuous correction of tax laws through the publication of press releases with specific anti-avoidance rules also provides an unnecessary advantage to persons who have readier access to this information, and it penalizes those who must become aware of future changes to the *Income Tax Act* by reading the newspaper.

Nevertheless, in spite of this need for an effective general anti-avoidance rule as a means of increasing fairness and stabilizing government revenue, the Committee does not believe that the general anti-avoidance rule proposed by the White Paper provides the ideal means for stopping artificial tax avoidance arrangements. The Committee accepts the views of various witnesses that the introduction of a statutory business purpose test would result in considerable uncertainty and would disrupt the business community. The Committee also recognizes that the business purpose test may run counter to the legislative intent of the *Income Tax Act* that serves as an instrument of socio-economic policy as well as a device to raise revenue to meet the cost of governing the community. The introduction of a business purpose test could inhibit a taxpayer from undertaking the specific activity which, in the words of Mr. Justice Estey, "... Parliament has invited in order to attain economic and perhaps social policy goals." Moreover both the Department of Finance officials and tax practitioners have been unable to advise the Committee that even the proposed subsection 245(1) found in the White Paper, which contains a business purpose test, would have been effective in preventing such "avoidance schemes" as the "Little Egypt Bump", or the "Skytrain" financing. Furthermore, the Committee takes note of the comments of Mr. Justice Estey in the *Stuart* case that the "object and spirit" approach to interpretation and the other broad interpretative guidelines, rather than a business purpose test, will provide "uniformity of application of the Act across the community, and at the same time reduce the attraction of elaborate and intricate tax avoidance plans, and reduce the rewards to those best able to afford the services of tax technicians."

The Committee, however, perceives that certain transactions may be "artificial or undue", but may escape the grasp of the interpretative guidelines enunciated by Mr. Justice Estey in the *Stuart* decision. Consequently the Committee has concluded that the existing general anti-avoidance rule in subsection 245(1) should be broadened to remedy some technical deficiencies within it. Thus, the Committee believes that the problem with the existing subsection 245(1) is not its lack of a "business purpose test" but the narrow scope of its application. For example, the existing subsection 245(1) only applies to "deductions" that would reduce "income" and not to a host of avoidance transactions that result in a decrease of "taxable income" or "tax payable" through claims for deductions or other means.

The Committee has also concluded that the existing subsection 245(1) should not be a provision of last resort but would be effective together with specific anti-avoidance rules to stop artificial tax avoidance transactions if the wording in the existing subsection 245(1) and other specific rules were broadened. The Committee acknowledges that the proposed wording for section 245 in the White Paper assists considerably in this regard because it refers to deductions from "taxable income" and "tax payable." New concepts, however, such as the business purpose test do not appear to be required. A broadly cast anti-avoidance rule based on the presence of established legal principles and expressions such as "artificial or undue" should provide Revenue Canada with the needed tools to counter artificial tax avoidance. It will not increase uncertainty and compliance costs for taxpayers. The Committee anticipates that the Canadian courts will continue to follow the *Stuart* guidelines and curtail tax avoidance by also relying on such concepts as "sham" or "ineffective transaction" and by insisting that taxpayers interpret a provision of the *Income Tax Act* based on its "object and spirit".

The Committee advocates the adoption of a general anti-avoidance rule that differs from the provision contained in the White Paper. The rule proposed by the Committee modifies the White Paper provision by:

- (a) dropping the word “significant” from the definition of avoidance transaction so that any artificial or undue deferral of tax, for example, could be considered an avoidance transaction;
- (b) stressing the need for an avoidance transaction to result from an “artificial” or “undue” reduction, deferral or refund of certain amounts;
- (c) eliminating the need for a business purpose test in a transaction or series of transactions because the test is not suitable for the structure of the *Income Tax Act* that now serves as an instrument of socio-economic policy;
- (d) limiting the definition of “avoidance transactions” to only certain transactions;
- (e) eliminating the phrase “notwithstanding any other provision of the Act” in proposed subsection 245(1) in the White Paper to ensure that transactions specifically endorsed by other provisions of the *Income Tax Act* are not set aside even if they result in an artificial or undue reduction or deferral of taxes. Consequently, claims for capital cost allowance or charitable donations and “rollovers” or tax-deferred transfers should not be affected;
- (f) providing the Minister with the discretion to decide whether to apply the proposed anti-avoidance rule after having concluded that an avoidance transaction affected the income, taxable income or tax payable of a person; and
- (g) providing any other person affected by a determination of the Minister with the right, without request, to receive notification of the determination by the Minister and to appeal this action of the Minister.

In summary, the Committee’s proposed language will serve important functions that the White Paper fails to accomplish. This new rule should permit Canadian business transactions to proceed with reasonable certainty, while protecting the ability of the tax system to yield predictable and reliable revenues. Only transactions that smack of artificiality will fail. The Committee believes that its proposed general anti-avoidance rule will contribute to the evolution of the existing law in this area and urges that any deficiencies now present in specific anti-avoidance rules should be remedied.

Therefore, the Committee recommends:

- 77. That the form of the general anti-avoidance rule proposed by the White Paper not be adopted and the following substituted therefor:**

General Anti-Avoidance Provision

“245(1) The Minister may ignore the consequences of an avoidance transaction and may reasonably determine the income, taxable income, tax payable or other amount payable of or refundable to any person under this Act, having concluded that such amount had been determined as a consequence of an avoidance transaction.

Avoidance Transaction

(2) An avoidance transaction means:

(a) any transaction that results in an artificial or undue reduction, deferral or refund of tax or other amount payable under this Act; or

(b) any transaction that is part of a series of transactions or events, which series results in an artificial or undue reduction, deferral or refund of tax or other amount payable under this Act.

Interpretation

(3) For the purposes of this section, “transaction” includes an arrangement, scheme, or event.

Adjustments in the course of a Ministerial Determination

(4) To make a reasonable determination under subsection (1) of the income, taxable income, tax payable or other amount payable of or refundable to any person under this Act, the Minister may:

(a) disallow in whole or in part any deduction in computing income, taxable income, or tax payable or any part thereof;

(b) allocate any deduction or any income, loss or other amount or part thereof to any other person; and

(c) recharacterize the nature of any payment or other amount.

Adjustments by the Minister to Prevent Double Taxation.

(5) The Minister, in order to eliminate double taxation, shall make any adjustment to income, taxable income, tax payable, or other amount payable or refundable under this Act of any person other than a person referred to in subsection (4), and the Minister shall notify the other person of the adjustment within 90 days of the day of mailing of any notice of assessment to the person referred to in subsection (4) for the year in which the avoidance transaction occurred.

The Committee also does not agree that a penalty should be imposed on a taxpayer for tax avoidance given the established principle in the *Income Tax Act* that penalties should only attach to wilful evasion or gross negligence. The Committee also perceives that the existing penalty provisions of the Act and the imposition of a non-deductible interest expense at a rate compounded daily sufficiently deter artificial tax avoidance.

Therefore, the Committee recommends:

78. That no specific penalties be applied to taxpayers who participate in an avoidance transaction as defined in proposed section 245.

Penalties

The White Paper, in an attempt to ensure better tax reporting, proposes to introduce some new penalties, amend other penalties and amend certain fines.

There will be new penalties in connection with dishonoured cheques, failure to report income, and late or deficient instalment payments. Commencing in 1988 a new \$10 penalty will be assessed for any cheque given to Revenue Canada, Taxation, that is not honoured. Where there is a failure to report income which results in an understatement of tax liabilities but not as a result of a false statement or omission, a penalty of 25 per cent of the tax understated will apply. This new penalty will only apply to the second "failure to report" in a three year period.

A significant new penalty has been introduced with respect to late or deficient instalment payments. Currently, interest is charged on late or deficient instalments. Commencing in 1989, the White Paper proposes to assess an additional penalty of 50-per-cent of the interest charged. This measure essentially allows Revenue Canada to charge interest at one-and-a-half times the prescribed rate on deficient instalments, while paying interest on any overpayments at the prescribed rate. This concept is unfair, particularly when it is considered that instalments are estimates, and the amount due in a particular year may be impacted by a subsequent year's reassessment. For example, a taxpayer may pay tax instalments based on an estimate of current taxes. Initial assessment of their tax return may confirm these calculations and no interest or penalties would be payable. Up to three years later, an audit of the return may be done resulting in an increase in the tax originally assessed. Under the White Paper proposals, such an adjustment would result in interest being charged on the deficient instalments at one-and-a-half times the prescribed rate.

While the Committee supports in principle attempts to improve tax reporting, it recommends:

79. That the 50 per cent penalty on interest on late or deficient installments not be implemented.

A number of penalties will be amended, with the intent being to consolidate some existing penalties and to generally increase the amount of such penalties. Amendments are proposed in generally the areas of failure to file certain returns, or failure to withhold or remit certain amounts. The amendments make two major thrusts: (1) the imposition of a "two-tier" style penalty, and (2) the general increase in the amount of the penalty. The "two-tier" element is a new concept where the maximum penalty will not be assessed on the first occurrence of an infraction, but will generally only be imposed on the second occurrence of a similar infraction within a three-year period. The rates of penalty on the second occurrence generally represent a significant increase over the current penalty.

The level of fines will also generally be increased for failure to comply with such sections of the *Income Tax Act* as tax evasion.

Certain briefs submitted to the Committee felt that the increase and amendments to penalties and fines were excessive, particularly when the complexity of filings is considered. As most significant fines are assessed for serious offences under the *Income Tax Act*, combined with the new "two-tier" concept on many penalties, the Committee except as noted supports the amendments to the penalties and fines provisions as proposed in the White Paper.

Tax Reform and Tax Simplification

Review of the White Paper has once again brought the Committee face to face with the extraordinary complexity of the Canadian tax system. The extent of this complexity and the need for simplification were brought out in many of the briefs and hearings. The chairmen of the Joint Committee on Taxation of the Canadian Bar Association and the Canadian Institute of Chartered Accountants appeared before the Committee and linked the inherent complexity in the system and the need for simplification.

. . . the very fact that the system, by its nature, must be complex only emphasizes the need that the various elements be so carefully crafted to be as simple as possible in the circumstances, and . . . that is a very important point.

The White Paper obviously agrees with the need for simplification and lists it as one of the goals of tax reform. The next section of this chapter lists those areas in which the White Paper has attempted to simplify the tax system. Unfortunately, although there are some simplifications in the proposed system, there are additional complications. Moreover, the simplifications are in the nature of modest pruning of a bush that has been allowed to run wild.

The White Paper and Tax Simplification

One of the five stated objectives of tax reform was simplicity, which the White Paper explains as follows:

A simpler tax system will ease compliance and reinforce the self-assessment principle that is the foundation of our tax system.

In a society as advanced and diverse as Canada, the tax system will, of necessity, be complex. But it can be made easier for individuals to understand and for businesses to comply with. A simpler structure of tax rates on income and fewer invidious borders between products taxed differently under the sales tax will contribute to meeting this objective.

A tax system with fewer special preferences will also be more straightforward and more readily understood by Canadians.

The Minister of National Revenue appeared before the Committee in early October and also acknowledged the importance of simplification for Canadian taxpayers. He pointed out the attempts of his Department to improve the readability of tax forms, guides and related documents — work that is laudable but not directly related to proposals for a reformed tax system.

The claim of the White Paper that the tax system will be simpler with reform is based, in part, on the reduction in the number of tax brackets from ten to three. As the Economic Council of Canada pointed out, however, in its brief to the Finance Committee:

Reducing the number of personal tax rate brackets to three does little to simplify the tax system; the complexity of the tax system derives more from the definition of the tax base than the number of tax brackets.

The Report on Tax Simplification

By the nature of its work, the Committee has long been interested in the simplification of the Canadian tax system, regularly examining ways and means motions and analyzing specific proposals that would require changes to the tax laws of this country. The complexity of existing tax laws and the increasing complexity of proposed changes to laws make analysis difficult.

In June 1986 the Committee issued the report *Tax Simplification* which concentrated on the personal income tax system. Research for that report exposed a tax system that baffled even acknowledged experts in tax accounting and tax law; one expert suggested that the Canadian Income Tax Act was “becoming unworkable,” and another referred to it as “an unmitigated mess.”

Faced with this problem, lawmakers must struggle to compare the intent of tax changes with their probable effects. Attempts at patching up the legislation and eliminating unintended consequences often lead to a more complicated tax system, with greater uncertainty for the tax filer. The patchwork legislation leads, of course, to its own unintended consequences and further patching.

Review of the personal income tax system convinced the Committee that the tax system must be simplified. The Committee concluded that:

... the trend, which has taken place for a generation, whereby the tax system becomes more and more complicated with each Budget must be reversed. People must be able to read and understand the *Income Tax Act*. Citizens must be able to read and understand the tax forms they are required to submit.

In an effort to provide some guidance for tax simplification, the Committee's report included the following recommendations:

1. That the Government make no changes to the income tax system without first examining the possible complexity these changes would introduce to the *Income Tax Act* and the tax forms.

2. That the Government now begin examining measures that can be introduced to reverse the trend in the tax system that seems to make it more complicated with each Budget.
3. That the tax system should be used to promote equity or growth only if no other method is simpler or less costly.
4. That Revenue Canada employ a team to redraft the current *Income Tax Act* to make it readable and understandable.
5. That the redrafting team follow the example of Quebec and make the federal Act at least as understandable as the Quebec *Income Taxation Act*.
6. That the redrafting team consider the following arrangement for each topic covered in the Act:
 - a) set out the general rule in one provision;
 - b) set out in subsequent provisions the sequence of the exceptions, qualifications, special rules, administrative provisions and definitions;
 - c) put the provision with the broadest application before those dealing with special cases;
 - d) put more important provisions before less important ones;
 - e) follow with technical housekeeping and administrative provisions; and
 - f) put detailed rules and explanations in the regulations, using examples when appropriate.
7. That if the redrafting team discovers major drafting problems that seem to be caused by relatively minor tax measures, these tax measures should be brought to the attention of this Committee and the Minister of Finance who should consider the advisability of eliminating these measures or modifying them to simplify the drafting of the Act.
8. That future proposals to change the Act should consider the implications on drafting.
9. That although drafters should not determine economic and social policy, they should have an early voice in any discussion of proposed tax legislation and should always be involved in the process leading to a change in the Act.
10. That the Government review the current package of exemptions, deductions and special tax measures to see whether the benefits from these can be provided in a simpler manner, by some method outside of the tax system, or by adjusting tax rates or general exemptions.
11. That Revenue Canada examine the possibility of introducing a questionnaire tax form for the 1986 tax year.
12. That wherever possible Revenue Canada eliminate lines from the tax return and tax guide by incorporating the implicit calculation for exemptions or deductions in the tax table.
13. That the Minister of Finance consider the advisability of amending the *Income Tax Act* to allow spouses the opportunity of filing joint income tax returns.

14. That Revenue Canada, with counsel from the Department of Finance and Statistics Canada, review its tax statistics and attempt to correct any bias that may exist in the recording of total, net and taxable income.

These recommendations are still applicable, and the Committee believes that following them would produce a far simpler and much improved tax system. It is understandable, however, that there is some resistance to adopting them, because they appear to call for the complete revamping of the income tax system, a project that would need large investments of time and money. It is easy to delay beginning such a large project, as Revenue Canada and the Department of Finance have immediate concerns that demand their attention and use up their budgets.

The Committee suggests that a pilot project, aimed at a complicated part of the *Income Tax Act*, would show the usefulness of the recommendations. One source of great complexity in the current tax system is the rules of attribution (the process by which one member of a family attributes income to another family member). Simplifying these rules would be a large step towards showing that the tax system can be made less complicated.

Therefore, the Committee recommends:

- 80. That, as a pilot project, the relevant government departments form a group to follow the recommendations of the report *Tax Simplification* and simplify the sections of the tax system dealing with attribution rules.**

The analysis of tax reform in this Report is of course much broader than tax simplification by itself. Nevertheless, this Committee also attempts to discover needless complications in the White Paper and to suggest modifications or alternatives.

The Personal Income Tax System

Not all taxpayers are affected by each change to the personal income tax system. The numbers who will be affected by some of the proposed changes are estimated in Table 21.

While the table does not list all the changes to the personal income tax system, it does highlight the range of filers covered by the proposed reform. Not all the changes in the table are simplifications. The revisions to the treatment of capital gains and the new treatment of farm income and losses certainly add complexity to the system.

Transfers of Exemptions and Credits to Related Taxpayers

The proposed changes should also simplify transfers between spouses. The exemptions and deductions eligible for transfer include:

- the spouse's age exemption;
- the spouse's disability deduction;
- the spouse's education deduction;
- the lesser of (a), the sum of the pension income deduction and the investment income deduction, and (b) the unclaimed amount of the basic married exemption.

Table 21

Scope of Tax Reform

Change in Tax System	Number Affected ¹
Reduction of the number of tax brackets	Over 10 million
Employment expenses deduction	Over 11 million
Interest and dividend income deduction	Over 7 million
Restrictions on home-office expenses	(²)
Elimination of forward averaging	30,000
Elimination of block averaging (for farmers and fishermen)	Part of 500,000 farmers and fishermen (about 4% per year)
Treatment of capital gains	Over 1 million
Restrictions on automobile expenses	(²)
Treatment of farm income and losses	Over 500,000
Replacement of deductions and exemptions by credits	Almost all (over 15 million)

¹ Based on 1984 tax statistics.

² It is not possible to estimate the number of those now claiming these expenses who will be affected by restrictions.

These items are reduced by the amount by which the spouse's net income exceeds his or her basic personal exemption. Over half a million taxfilers claimed transferred deductions or exemptions.

Under the proposed system, the unused portion of the following credits will be transferable: age credit, pension income credit, disability credit, and tuition and education credits. A parent or grandparent may also claim the transfer of the unused portion of disability, tuition and education credits. In all the cases, the amount of the federal credits transferable will be reduced by 17 per cent of the excess over \$6,000 of the net income of the transferring spouse or related child (at \$6,000, the tax on the net income of the spouse or child equals the basic personal tax credit for a single person).

Claiming the transferred items is now complicated; the necessary calculation takes an entire page of the income tax return. With the proposed tax system the calculations will be simpler, but they still may drive filers to tax preparers.

Capital Gains

The lifetime capital gains exemption, which was introduced in 1985, now has a limit of \$100,000, except for farmers and small businesses. The eligibility of certain assets for the capital gains exemption has also changed. When treated differently from other income, capital gains always produce a complicated income tax system. The proposals relating to cumulative net investment losses add complexity to the calculation of the lifetime capital gains exemption. As noted above, the formula is not as complex as it might have been. However, the White Paper proposals could lead to more confusion and uncertainty, elements that add to the frustration of the tax filer who sees little stability in the treatment of capital gains and may wonder about the fairness of the system.

Farmers

Since the beginning of federal income taxation in Canada, farmers have used a cash accounting system; the White Paper proposes they use a modified accrual system. While there may be reasons for the switch, simplicity is not among them. Some accounting firms and several briefs submitted to the Finance Committee identified problems with the wording in the new accounting proposal. The accounting firm Peat Marwick, for example, asked the following questions that were prompted by the original presentation in the White Paper:

... how does a dairy man compute the cost of a heifer calf born to one of his cows which will be raised as a replacement animal? Should any of the feed the cow consumed during the gestation period be factored into the cost of the calf when the cow was owned primarily for her milk producing ability? Should the cost of the cow be amortized over the expected number of calves she can be expected to produce during her lifetime? What do you do if the cow gives birth to a bull calf which is generally less desirable than a heifer calf? What overhead should be allocated to the cost of the calf and the raising of the calf?

Requests for clarification of some points in the White Paper led the Department of Finance to issue an information bulletin on 31 August 1987. One of the areas covered was modified accrual accounting rules for farmers:

Farmers who choose to value their inventory at the lower of cost or market value may consider the cost of crops grown by the farmer or animals born on the farm to be nil, effectively giving a cash basis write-off, rather than allocating direct and indirect costs of the farm operation to their cost, and deferred cash tickets received by grain farmers will be considered to be an account receivable, with the result that the amount of the deferred cash ticket will be eligible for the proposed cash basis adjustment that may be claimed to reduce positive farm income to nil.

These and other clarifications answered some of immediate questions raised by the White Paper proposals, but they indicate the complexities in the proposed changes to the tax system.

It is easy to foresee a series of patchwork revisions to the system in the future—first revisions to eliminate some technical flaws and loopholes and then new revisions to eliminate the new loopholes. This has been the history of change in taxation for most of the postwar period; the proposed reform, despite paying lip-service to the objective of simplification, does not alter the system enough to reverse the trend toward greater complexity.

Conversion to Credits

Less than 10 per cent of tax filers will be affected by the changes in the treatment of capital gains or farm income. The conversion of exemptions and deductions to credits, on the other hand, affects almost all filers.

The conversion to credits was made primarily on grounds of equity, and its effect on simplicity is not clear-cut. Some of the more simple conversions involve replacing a

fixed deduction with a fixed credit (for example, the \$1,000 pension income deduction becomes a \$170 credit). Others involve multiplying the previous deduction by 17 per cent (for example, the tuition credit will become 17 per cent of allowable tuition expense), which are slightly more complicated. One observer remarked that Canadians will soon be very adept at using the 17-times multiplication table.

In the case of charitable contributions, there is an additional complication in that the calculation of the deduction can take two steps. Members of the Committee were also interested in how the new treatment of charitable contributions might affect charitable giving and government revenue. The Committee believes that the new system will improve charitable giving, but it did note as an important concern that the two-tier approach to calculating the credit was much more complicated than the current one.

Alternative Minimum Tax

In 1985 the government introduced the alternative minimum tax (AMT). There are two reasons for a minimum tax. The first is to prevent excessive use of tax preferences whereby Canadians with high incomes pay little or no tax. The second reason is to prevent future erosion of the tax base.

Although the goals of a minimum tax are laudable, the AMT in practice has introduced two significant problems into the tax system. As many experts pointed out to the Committee, during its previous work on tax simplification and during the current analysis of the White Paper, the AMT is extraordinarily complicated. It affects many sections of the *Income Tax Act* and necessitates multiple calculations for those who might be affected by it.

The second problem is that the AMT may catch only the unwary, namely those who do not have access to sophisticated tax planning advice. Some taxpayers, for example, who have received a capital gain and claimed it as part of the lifetime capital gains exemption could have to pay the AMT, as could taxpayers who transfer pension benefits or retiring allowances into a registered retirement savings plan. Other taxpayers may restructure their transactions to avoid the AMT. With the AMT, therefore, the tax system treats different high-income Canadians differently; and those who come out second best are the unwary and the unsophisticated.

One thrust of tax reform has been base broadening by the elimination of tax preferences, especially those used extensively by high-income Canadians. The recommendations in this Report support that thrust. In fact, the proposals in the White Paper as modified by the recommendations in this Report would go quite far towards eliminating the tax preferences that offered high-income Canadians the most scope for lowering their taxes. By 1990, some others that now remain will have been phased out.

In other words, tax reform can be seen in part as a substitute for a minimum tax. There is thus a good reason for reviewing the need for a minimum tax, if tax reform as outlined in this report is put in place. In terms of simplification, moreover, there are very good reasons for eliminating the AMT.

Therefore, the Committee recommends:

- 81. That once the tax system as outlined in this Report is put in place and enough time has passed for the reform to be fully phased in, the Minister of Finance should review the need for the alternative minimum tax.**

Tax Forms

The ever-increasing complexity of the Tax Act is reflected in the returns filed by Canadian taxpayers. Preliminary estimates for 1986 show that 42 per cent of tax filers received help in preparing their returns (28 per cent used professional tax preparers and 14 per cent used other help, such as a friend, relative or social group). Over one-fifth of those filing the T1 Special Form, which is a four-page form for those with relatively straightforward reporting requirements, used outside assistance. In recent years the proportion of those using assistance with their filing has increased. Moreover, those who do not use assistance must struggle with a complicated form whose guide directs the taxfiler to other pamphlets and interpretation bulletins.

When the Minister of National Revenue appeared before the Committee he brought two versions of what a 1988 T1 General Form might look like; an official from the Department emphasized that "the two packages are obviously not entirely complete as there are still some rough edges on some of the proposals." The 1988 forms did have slightly fewer lines than the 1986 forms, but as the Committee went through the sample forms, it became obvious that the average taxpayer would find the proposed system as complicated as the old.

It is true, of course, that *any* new tax system would produce problems for filers, especially in the year the new system takes effect. This is because many filers use their returns from the previous year to aid in filling out the return for the current year. The transition to a new system means that previous returns can no longer be used as a guide. In time, transitional problems will fade and the significant differences in the complexity of the two systems will stand out.

The Committee concludes that the new forms have not been simplified and will not lower the number of filers who pay for the services of tax preparers.

The Corporate Income Tax System

Corporations often use specialists in tax accounting and tax law, and moderate tax simplification will not lead to mass unemployment of these professionals. As the White Paper points out, a society as advanced and diverse as Canada will have a complex tax system. Unfortunately, society's diversity is often exaggerated and used to rationalize needless complexity in administering it.

The Joint Committee on Taxation of the Canadian Bar Association and Canadian Institute of Chartered Accountants argued that simplification was possible and pointed out that "meaningful simplification in the small-business area was achieved a number of years ago". Having acknowledged this, the committee expressed concern that the tax system suffered from what they called the "Rube Goldberg syndrome". In the words of one member:

By that I mean the tendency of legislators when a problem is perceived, just to tack provision on top of provision. It creates an enormously complex set of rules when maybe the approach should be to take it right back to ground zero and re-think the whole concept.

In its brief to the Finance Committee, Dunwoody and Co., chartered accountants, discussed the basic problem and provided a partial list of some of the complexities that have been added to the corporate tax side by side with the proposed reforms. Following are some of the comments in the brief:

Over the years, the Act has become incredibly complex. There are general rules, exceptions, exceptions to the exceptions, special transitional rules, phasing-in and phasing-out provisions, and various other complicating factors. Some sections of the Act are almost totally unintelligible, while others are so arcane as to be known by only the most seasoned tax experts.

A particular transaction may be affected by any number of provisions, some specifically related, and others dealing with general concepts and restrictions. Tax practitioners must be aware of all these and understand when and how they may apply. This responsibility is becoming more and more difficult to fulfill.

Thus it was particularly disappointing to see that the Tax Reform proposals do virtually nothing to simplify the Act. Indeed, in many respects they compound the problems:

- There are now a whole new series of transitional rules and phase-in dates.
- There will be the additional administrative burden of keeping track of those expenses that are no longer fully deductible, or that are otherwise restricted. A separate CCA pool will be required for each car in certain cases. In other cases, both pre- and post-reform CCA classes will be required.
- Determining a corporation's tax rates, capital gains inclusion rates, and capital cost allowance rates is no longer a simple matter. These rates can only be determined by pro-rating based on the corporation's year-end.
- Tax practitioners must now deal with a broad new anti-avoidance provision which could potentially apply to virtually any business transaction.

How is the average businessman to keep track of these constant changes in order to be able to comply? How is his general accountant/auditor to maintain his tax knowledge to be able to verify the tax provision and so attest to financial statements? How is a tax practitioner to advise his clients with any certainty? And how is Revenue Canada to maintain a staff of individuals who are able to answer taxpayers' queries and administer the rules consistently and competently?

The list omits such new complexities as the treatment of preferred shares and the put-in-use rule for capital cost allowance and investment tax credits but does highlight the importance of the new anti-avoidance provisions. Prior chapters have dealt with these provisions.

The White Paper also suggested that a system with fewer special preferences would be simpler, but simplicity would depend on a number of factors. A new system with fewer preferences could still be more complicated than the old. In fact, the proposed reforms do not so much eliminate preferences as alter the existing preferences so as to limit the extent that corporations can take advantage of these preferences. Examples are the revised treatment of flow-through shares and the changes in the calculation of capital cost allowances for various capital goods.

The new corporate tax system will undoubtedly be at least as complicated as the current one. As Dunwoody and Co. concluded: "It seems as though the goal of tax simplification has been completely abandoned."

Recommended Simplifications

In the area of tax simplification it is easy to imagine and ask for a tax system that is structurally and administratively simple and that has readable forms and straightforward filing requirements. It is no bad thing to have such an ideal as a goal. But as the White Paper pointed out and as several briefs and witnesses conceded, a sophisticated economy is bound to have a complicated tax system.

Nevertheless, it is possible to find needless complications in the tax system and work to eliminate them. The discussion above pinpoints complications, and the recommendations in the previous chapters have been proposed in part with the desire for a simpler tax system. Among these recommendations are:

- the rejection of modified accrual accounting for farmers;
- replacement by a surtax of the interim changes to federal sales tax;
- treatment of eligible capital property as another form of depreciable property;
- maintenance of the capital gains inclusion rate at two-thirds and the federal dividend tax credit at 13 1/3 per cent of the grossed-up dividend to neutralize any temptation to exploit any distinctions between these two types of income;
- uniform treatment of the business use of automobiles; and
- conversion of CPP contributions on self-employed earnings to a credit.

On the other hand, there are recommendations in this Report that would lead to some additional complexity for the sake of greater fairness, such as those for the child tax credit. Other recommendations in this Report may seem complicated, but they are less so than the proposals in the White Paper, as in the tax treatment of preferred shares.

Conclusions

It is disappointing for the Committee to draw the inevitable conclusion that the proposed tax reform has not successfully addressed the problem of simplifying the tax system. There are, of course, some elements of the proposed system that are less complex than corresponding elements in the current system. But overall the new system

is at least as complicated as the old. As many tax filers in the future as in the past will need the services of tax preparers, and corporations will face the same uncertainty in interpreting the *Income Tax Act* as they have in the recent past.

In reviewing the White Paper, the Committee noted that the goals of efficiency and fairness were given priority over the goal of simplification. While the Committee agrees in theory with such a balancing of objectives, in practice the White Paper proposals would lead to needless complications.

Occasionally, much is made of the tradeoffs among the objectives of tax reform, as if a push for simplification would *always* be at the expense of efficiency or fairness. There are tradeoffs, which obviously should be identified, but it is easy to overstate their importance. The recommendations in this Report and in the Committee's previous Report *Tax Simplification*, for example, would lead to a tax system that is more efficient and one whose fairness is more visible.

Definition of Scientific Research Under the *Income Tax Act*

Having addressed the issues raised by the White Paper with respect to Stage One of tax reform, the Finance Committee would like to return to an issue also dealing with the *Income Tax Act* and discussed in a previous Committee Report. The issue concerns the expansion of the definition of scientific research and experimental development to include the social sciences and humanities. The following Report was tabled in the House of Commons on March 12, 1987:

The Standing Committee on Finance and Economic Affairs has the honour to present its

FOURTH REPORT

In accordance with its mandate under Standing Order 96(2), your Committee has agreed to report the following:

Section 37(1)(a)(vi) of the *Income Tax Act* allows the deduction for payments made by a taxpayer to an approved organization which includes the Natural Sciences and Engineering Research Council, the Medical Research Council and the Social Sciences and Humanities Research Council. The payment received by the organization must be allocated to an association, institution or corporation undertaking scientific research and experimental development. However, the definition of scientific research and experimental development provided by section 2900 of the regulations made under the *Income Tax Act* excludes the social sciences and humanities.

Canadian universities and research institutions are staffed with experts in the social sciences and humanities. Our sociologists, psychologists, economists, historians, philosophers and theologians contribute daily to world knowledge in their specialities. Their books, monographs and scholarly articles testify to their prominence in the world of ideas. But our current *Income Tax Act* leaves them an untapped resource.

Discriminating against the social sciences and humanities could be short-sighted. In addition to the technical side of business there is a human side. Efficiency may be improved — and unit costs lowered — by focusing research on this human side.

Not all English professors or sociologists will be doing work of interest to business, of course, just as not all theoretical physicists experiment so that factory owners will have lower costs.

The rewards from research and development do not follow a simple formula — investing \$1 in scientific research may not lead automatically to \$1.25 in benefits. It may lead to more, it may lead to nothing. Research and development is risky. People take chances, play hunches, but always believe that the creative use of intelligence will produce something worthwhile. Broadening the scope of research to include the social sciences and humanities may increase the payoff to research and development.

Therefore your Committee recommends:

That the government should consider the advisability of amending the definition of scientific research and experimental development in section 2900 of the regulations made under the *Income Tax Act*, in order to include social sciences and humanities, so that payments made to an approved organization would be eligible for tax credit allowances.

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The Committee regrets that it was unable to receive more witnesses. The following is a list of briefs, letters and submissions to the Committee from organizations and individuals from whom the Committee could not receive personal testimony.

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ABITIBI-PRICE INC.
ABSTAINERS/MAPLEX GENERAL INSURANCE COMPANIES
ACTON CHOWDHRY & GUNDERSON
ACTION COMMITTEE TAXATION
AGRICULTURAL INSTITUTE OF CANADA
AIR CANADA
ALLIANCE OF CANADIAN CINEMA, TELEVISION & RADIO ARTISTS
ALLIANCE OF CANADIAN TRAVEL ASSOCIATIONS
AQ FINANCIAL GROUP LTD.
ASSOCIATION DU DISQUE ET DE L'INDUSTRIE DU SPECTACLE QUÉBÉCOIS
ASSOCIATION DES FEMMES COLLABORATRICES
ASSOCIATION DES FEMMES DIPLOMÉES DES UNIVERSITÉS
ASSOCIATION DES MINES DE MÉTAUX DU QUÉBEC INC.
ASSOCIATION OF CANADIAN DISTILLERS
ASSOCIATION OF CANADIAN FILM & TELEVISION PRODUCERS
ASSOCIATION OF CANADIAN FINANCIAL CORPORATIONS
ASSOCIATION OF REGISTERED INTERIOR DESIGNERS OF ONTARIO
ASSOCIATION OF UNIVERSITIES AND COLLEGES OF CANADA
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Dissenting Opinion — Liberal Party

The Liberal members of the Standing Committee on Finance and Economic Affairs have analysed the White Paper on Tax Reform, and the briefs submitted to the Committee, and have come to the conclusion that Finance Minister Michael Wilson's tax reform is unacceptable.

We were happy to work with the other members of the Committee to correct the White Paper's shortcomings, and we have reached a consensus with them on a large number of recommendations. Nonetheless, although we support most of the recommendations, we have serious reservations about some of them, for reasons that will be explained further on.

In all, the Committee heard 174 witnesses. The main thrust of their message was that the White Paper's proposals are inadequate, even totally unacceptable. More specifically they pointed out to us that the proposals will do nothing to make the personal income tax system more progressive; that they will reduce benefits for families; that they will discourage capital formation; and that they will make our businesses, especially in the manufacturing sector, less competitive.

Even though we support a good many of the recommendations in the Committee's report, we find it deplorable that the report's introduction implies that the recommendations deal simply with matters of "detail". One has only to read the recommendations on assistance programs for families with more than two children, on insurance and financial institutions, on the film industry, on agriculture, on research and development, on automobile expenses, on capital gains, on the general anti-avoidance provision and many others, to realize that these recommendations do not deal simply with details but rather go to the heart of the matter.

Although the Committee's report takes a highly critical approach to the White Paper, we, the Liberal members of the Committee, have serious reservations about the report's recommendations in the following areas: (a) tax rates and brackets; (b) family assistance programs; (c) taxation of small businesses; and (d) flow-through shares. We also wish to comment on the taxation of financial institutions. Lastly, we note that the report is incomplete, since the Committee's mandate restricted it to studying stage I of the reform.

Tax rates and brackets

We are opposed to the Committee's first recommendation, which proposes that the rate structure and the brackets for personal income tax be implemented as set forth in the White Paper. In our view, that structure is blatantly unprogressive; not only is it unjust to middle-income earners, it also provides upper-income earners with all-too-generous tax reductions.

Family assistance programs

We regard the Committee's recommendations on family assistance programs as too timid. They go in the right direction, but they do not go far enough to meet the real needs of families. The expert witnesses who appeared before the Committee showed that the cumulative effects of the proposed tax reform and the last three federal budgets will reduce assistance to middle-income families by more than \$400 per child. It is not surprising that the Wilson reforms have been described as an attack on the family.

Small businesses

With regard to small businesses, we consider that the Committee should have rejected the White Paper's proposed increase of the tax rate on small manufacturing enterprises (from 10% to 12%). We do not understand why small manufacturers should be the only group to suffer a tax-rate increase. There are more than 40,000 small manufacturing firms in Canada, and they have created more than 74% of the jobs in this sector in recent years.

Moreover, we believe the Committee should have recommended that a vendor of small business assets be entitled to a \$500,000 capital gains exemption. Initially, the Committee said it was in favour of this idea, but subsequently the majority of members allowed themselves to be convinced by the Finance Department that it would be extremely difficult to draft this kind of legislation. We also recognize the fact that this would be a difficult task, but, we believe, a task no more insurmountable than the problems encountered by the Department when it decided to introduce the general exemption in May 1985.

Flow-through shares

We oppose the Committee's recommendation regarding flow-through shares in the resources sector. As suggested in the White Paper, the Committee proposes to do away with the earned depletion allowance, but wants to delay implementing this measure for only six months. We believe that the existing flow-through share mechanism has increased the pace of resource exploration, a high-risk activity. Furthermore, flow-through share provisions are responsible for sustained development in the regions where exploration activities are centred. Coming on the heels of the gradual elimination of investment tax credits for a number of regions and cutbacks in funds earmarked for

economic and regional development, the elimination of the earned depletion allowance provides further confirmation of the near total abandonment of Canadian regional development policies.

Financial institutions

With regard to financial institutions, we agree with the general thrust of the Committee's recommendations which call for this sector to pay its fair share of tax. As far as the recommendations are concerned, we believe that government policy should place more emphasis on the solvency and soundness of financial institutions, rather than on mechanisms for taxing their reserves unwisely. It should be remembered that the primary purpose of these reserves is to provide adequate protection for the savings of Canadians.

Mandate of the Committee

Lastly, we believe that given the Committee's mandate, which is to consider Stage I of tax reform, the report is incomplete. The Committee has not formulated an opinion on the question of the government's overall tax strategy which includes the last three budgets as well as Stages I and II of tax reform. Consequently, it has not expressed an opinion about the introduction of a sales tax on food, a measure which we strongly oppose.

Conclusion

The government promised comprehensive changes. It has failed to keep its promise. For political reasons, it has recommended that the reforms be introduced in two stages, and has postponed the announcement of new sales taxes. We hope that the Committee will undertake a study of the second phase of tax reform as soon as possible. Until we take an in-depth look at sales tax reform, which was supposed to be the key component of tax reform, we will not have a clear picture of the Minister's true intentions, particularly as regards a tax on food.

Raymond Garneau
M.P. for Laval-des-Rapides

Dissenting Opinion — New Democratic Party

1. Introduction

The Canadian tax system is long overdue for fundamental reform. There is now all but unanimous agreement that the changes of the past twenty years have resulted in a system which is highly complex, grossly unfair, and monumentally inefficient. Tax experts, business and ordinary Canadians are all agreed on the need for change. However, the direction of real reform remains very much a matter for debate and discussion. New Democrats have been in the forefront of this debate, speaking out for fairness, efficiency and simplicity in the tax system. We raised the issue of tax reform in the 1984 Election, have since conducted a major review of the tax system, Tax Probe '86, and have published three major studies. We will continue to work for real tax reform.

The White Paper proposals upon which the Finance Committee was asked to deliberate are seriously deficient on grounds of broad principle and constitute, in our view, a prescription for a tax system which will be different, but no more fair, and scarcely more efficient than that which now exists. The Committee has improved the work of the Finance Minister in technical detail and substance, but it has failed to take up the challenge of redrafting the proposal in terms of the fundamental principles which should, in our view, underpin real tax reform.

As New Democrats on the Finance Committee we have actively participated in a lengthy process of analysis and review of the tax reform package proposed by the Mulroney government. The Committee has proposed a number of changes which would improve this proposal, and the major elements of the Report of the Committee which have our support are noted below.

2. Principles for Tax Reform: Fairness, Efficiency, Accountability, Simplicity

A) *Fairness*

A major function of the tax system is to raise funds for government expenditures in a fair and efficient manner. This introduces a large number of technical criteria for

judging the appropriateness of a particular set of proposals. We would stress, however, that taxation equally involves serious moral and philosophical issues. We live in a society where income is unequally distributed to individuals and families through the mechanism of the market in the form of wages and salaries, rent, interest, dividends and so on. Such income is, to say the least, not distributed equally, nor would we expect it to be. Opinions will differ on whether the market is a good mechanism for realising the goal of economic efficiency, but most would agree that it is a poor instrument for realising social equity. We would stress that a central function of the tax system should be to achieve a redistribution of income from the wealthy to average and lower income Canadians.

This is by no means an abstract or philosophical point. In Canada today, about one family in five lives in poverty while the wealthy few receive a highly disproportionate share of total national income. The poorest 20% of Canadian families must live on less than one sixth the income of the wealthiest 20%. Average Canadian families are asked to bear more than their fair share of the cost of government while many of the wealthy still pay little or no tax. Astonishingly, the tax system taken as a whole fails to achieve any substantial redistribution of income among Canadians and the one progressive part of that system, the personal income tax, is not far from being neutral in its impact. Certainly the effective rate of tax on the wealthy is little greater than that imposed on the average family. Any tax reform worthy of the name must address this problem of fairness in a serious way by reducing the share of the tax burden borne by average and lower income Canadians and increasing the share paid by the wealthy.

The Conservative “reform” package dismally fails the test of fairness because it is consciously structured so as to be neutral in terms of income distribution. Otherwise progressive features such as the conversion of tax exemptions (which favour upper income earners) to tax credits (which favour lower income earners) are more than offset by changes to the structure of tax rates. Trading tax breaks for lower rates most emphatically does not result in a fairer tax system for average Canadians. At the same time the White Paper fails to significantly change the overall balance between progressive and regressive elements of the tax system, and indeed anticipates an increase in the regressive sales tax.

The goal of fairness demands that all forms of income should be treated equally. Income from property such as capital gains, dividends, rent and interest should be taxed on the same basis as wage and salary income. Further, the corporate share of the overall tax burden — representing a withholding tax on property income — should be increased, and the sales tax share — representing a regressive tax on consumers which is not geared to ability to pay — should be reduced if the total tax burden is to be more fairly divided among Canadians. Unfortunately the Committee chose not to examine in depth the issue of balance between the three pillars of the tax system — the personal and corporate income tax and the federal sales tax — an issue which is central to fairness.

The goal of fairness equally demands that the tax burden on small businesses should be lower than that imposed on big business. As things stand, tax benefits intended to create jobs are monopolised by big business, while small business pays more tax and yet creates the vast majority of new jobs.

B) Efficiency

The goal of efficiency should be no less central to real tax reform. Expenditures through the tax system in the form of special write-offs and deductions constitute a massive “hidden Budget” which promotes a wide range of important goals such as investment, saving and particular areas of consumption.

It has been generally recognised that many (if not most) of these tax expenditures in both the personal and corporate tax systems are inefficient means of realising stated goals, and the White Paper recognises this in proposing a significant degree of broadening of the tax base through the elimination or reduction of specific tax incentives. However, the goal of economic efficiency has been ill-served by the decision of Mr. Wilson to lower corporate and personal tax rates to match the reduction of special breaks and incentives on almost a dollar for dollar basis. This does make the system somewhat more neutral in its impact upon different sectors of the economy, but the issue of how to promote investment and growth more efficiently through the closer targetting of tax measures to specific sectors (eg. small business, industries in the weak regions) was scarcely addressed by either the White Paper or the Committee.

Greater targetting of tax expenditures would, in our view, more efficiently promote such key economic goals as job creation and regional economic development. In addition, under many circumstances direct government expenditures are a more efficient and less costly means of realising national economic goals.

C) Accountability

The goal of accountability has also not been seriously addressed by the Government or the Committee. Tens of billions of dollars are spent annually through the tax system, but we continue to lack sufficient formal mechanisms for review and scrutiny of these measures by Parliament, the public and within government. The Conservatives intensively scrutinised government spending programs in the Nielsen Task Force, but only 3.5% of the 6500 page report was devoted to analysis of the \$30 billion of tax expenditures, and no new measures have been taken to make this form of spending more accountable.

D) Simplicity

Finally, the goal of simplicity still remains to be addressed. Ordinary Canadians are increasingly baffled by the complexity of the tax system and are rightly suspicious that this serves the interests of those who can afford to hire high-priced accountants and lawyers to negotiate their way through the maze. The need for a comprehensible, easily completed tax form remains as paramount as before this particular tax “reform” was introduced.

3. A Fairer Balance Between Individuals

The White Paper proposals dismally fail to pass the test of fairness. Under this proposal, households with an income of more than \$100,000 will get an average income

tax break of \$1,615 while families with an income of between \$30,000 and \$40,000 will get an income tax break of \$320. As well, 175,000 "winner" households with income of more than \$100,000 get an average tax break of \$4,365 compared to just \$90 for "winner" families with income of less than \$15,000. One in every five dollars of tax savings from this reform will go to the 2% of families with income of more than \$100,000.

The average income tax cut for a two earner family with two children making \$30,000 will be \$263, compared to a \$966 tax increase (personal and sales tax changes combined) since the Conservatives were elected in 1984. A similar family with an income of \$40,000 will get an income tax cut of \$421 compared to a total tax increase of \$1,139 since 1984. In overall terms, then, the average family will be much worse off than when the Conservative government was elected, and the only families that will gain overall will be among those fortunate to have an income of \$100,000 or more. In addition, Phase Two of this "tax reform" will see the imposition of a new sales tax.

It should be noted that the new credits to be introduced in 1988 will not be fully indexed to inflation, with the result that the income tax burden on average families will increase in real terms, and with the result that many more poor families will be forced back onto the tax rolls. Because of indexing, both lower and middle income families will be worse off than now within three years.

The demonstrable failure to achieve fairness between individuals and families is primarily rooted in the White Paper's failure to introduce a fair tax rate structure. While some special breaks for the wealthy have been reduced or eliminated and the change from exemptions to credits reduces deductions for the wealthy, the effect has generally been more than offset by a cut in the top rate of tax. The top federal rate for those with taxable income of more than \$55,000 falls from 34% to 29%.

We are deeply disappointed the Committee did not agree with our request to reconsider the rate structure. An increase in tax rates applicable to upper income earners would permit a reduction in the rate of tax on average and lower income earners and/or an increase in tax credits. We would add that it is utterly bogus to suggest that the new three tier rate structure is simpler than the existing system since the average tax filer will continue to calculate tax payable from tax tables in any case.

Recommendation 1

The structure of tax rates should be further examined and a higher top rate should be imposed on high income Canadians.

We have a number of concerns with the structure of personal income tax credits as endorsed by the Committee and suggest that it would be appropriate to convert additional exemptions and deductions (including pension contributions) to credits. Most importantly, the new credits — which are indeed a welcome and progressive change from the existing system of exemptions and deductions which favours those in higher income brackets — should be fully indexed to inflation to preserve their value over time. We note that this position was supported before the Committee by groups as diverse as the Canadian Labour Congress and the Canadian Chamber of Commerce,

and the post-reform U.S. tax system is indexed to inflation. It should be stressed that total taxable income in the hands of individuals increases broadly in line with inflation, and that a failure to fully index credits thus represents a hidden annual tax increase. The cost of full indexation of the personal income tax credits could be reduced by deindexing credits claimable by upper income earners, thus matching the phase-out of tax credits in the U.S. (This phase-out means that the top marginal tax rate in the U.S. is higher than that proposed by the Conservative government.)

Recommendation 2

The personal income tax system should be fully indexed to inflation.

We further disagree with the approach of the White Paper and the Committee to the broadening of the personal income tax base. While progressive changes have been proposed, we would urge that other measures be taken.

Recommendation 3

We recommend that capital gains income (except for farmers and small businesses) be fully taxable and the lifetime exemption eliminated (as in the U.S.).

Recommendation 4

We recommend that other personal tax measures which largely favour the wealthy such as the deduction for RRSP contributions for upper income earners (the so-called "top ups"), special treatment of dividend income and full deduction for interest costs in excess of investment income be further reduced.

Again, revenue increases from these measures could be used in part to increase tax credits and thus to reduce effective rates of tax on lower and middle income Canadians.

We support the recommendations of the committee regarding the treatment of capital gains of farmers and small business, and we agree that taxation of capital gains income should be net of losses.

The goal of fairness demands that families living in poverty should not be liable to income tax. We urge that this objective be accomplished through further broadening of the tax base, changes in tax rates on upper income earners, and increases in tax credits as called for by the National Council of Welfare and other social policy groups.

In 1984, 287 wealthy Canadians with income of more than \$250,000 paid no income tax, and many more paid tax at well below average rates. The minimum tax introduced in 1986 will remain necessary to prevent abuse, and should be overhauled to ensure that it is effective. (By the government's own admission, one in four non-taxable wealthy Canadians can still dodge the minimum tax.)

4. A Fairer Tax System for Families

The White Paper proposals continue the steady erosion of family benefits which has been in train since the 1985 Budget when family allowances were partially de-indexed and the child tax exemption sharply reduced. This reduction has been temporarily offset (for low income families) by increases in the child tax credit, but middle income families have seen a significant reduction. (At a family income level of \$30,000 the family allowance net of tax, child tax credit and child tax exemption combined are worth \$203 less than in 1984.)

Perversely, the White Paper proposals will give significantly lower tax cuts to families with children, including low income single parent families headed by women, than to childless families and individuals. This is the result of the replacement of the child tax exemption with a derisory credit of just \$65 per child. In addition, many families now in receipt of the refundable child tax credit will see a reduction in benefits. Overall, a two child low income family (\$23,433) will receive a \$56 cut in child benefits as a result of the White Paper proposals and a middle income family will lose more than \$200. These reductions are in addition to those already experienced since 1985. The National Council of Welfare calculates that by 1991 total child benefits for a two child family at the poverty line will have been reduced by \$314, while the average 2 child family will lose \$925.

The Committee has gone some way towards addressing this erosion of support through the tax system for families with children, but much more needs to be done.

Recommendation 5

We urge that the value of the new \$65 tax credit be significantly increased and indexed to inflation. The new credit could then be melded with an increased, re-indexed family allowance. We also reiterate the long-standing policy of the New Democratic Party to increase the existing refundable child tax credit by 80% — an essential step towards lifting low income families with children above the poverty line.

The above measures are essential if tax reform is to serve the interests of Canadian families, particularly families headed by women.

5. No Sales Tax on Food

Recent sales tax increases have added to the tax burden on low and middle income Canadians. Sales taxes are the most regressive and hidden form of taxation, hitting hardest at those spending most or all of their income on necessities and those who cannot afford to save, and bearing least on those who divert a significant share of current income to investments.

The Conservatives have used sales tax hikes to generate almost 60% of new revenues between 1985 and 1990, adding \$600-700 to the tax bill of middle income

families. The low income tax credit fails to offset the impact on even the poorest families.

Canada now collects more revenue from these goods and service taxes (35% of total revenues) than most OECD countries (average 29%) and much more than in the U.S. (only 17% off all revenues). There is broad agreement on the need to overhaul the current federal Manufacturers Sales Tax which is damaging to Canadian industry, adversely affects Canadian jobs, and is generally a regressive form of taxation. The Conservatives are, however, being less than frank regarding their plans for sales tax changes and it is unlikely that Canadians will be told how the proposed new tax will work before the next election.

New Democrats are particularly disturbed that the option of a new broadly based sales tax on essential goods and services, including food, is still being considered. While Phase II of tax reform was not studied by the Committee, we wish to emphatically state our total opposition to such a new tax which could not be other than regressive in its impact. We would add that the prospect of a credit to offset sales tax increases on essentials like food is scarcely reassuring to low and middle income Canadians who have paid more and more in hidden taxes under this government and who have not been compensated by the derisory low income tax credit put in place by Mr. Wilson. Surely government assurances will be viewed with skepticism in view of the fact that even this small credit is not fully indexed to inflation.

The Committee has proposed a temporary 3% surcharge on the Manufacturers Sales Tax as an alternative to Mr. Wilson's interim sales tax measures. While this is preferable to the White Paper proposals, we cannot support any addition to the massive increase in the sales tax burden since 1984.

It is our strong view that reform of the Manufacturers Sales Tax should be undertaken in tandem with a commitment to reduce the share of the sales tax in the total federal tax burden.

Recommendation 6

Reform of the federal sales tax should not involve taxation of food and should reduce the reliance of the federal government on indirect taxes.

6. A Fair Tax Deal from Business

Personal and corporate income tax revenues were about equal in the early 1950s. By 1980, individuals were paying \$3 for every \$1 paid by corporations, and by 1990 individuals will pay \$4 for every \$1 paid by corporations. This shifting balance at the expense of ordinary Canadians must be reversed by rolling back unproductive corporate tax breaks and by making sure that profitable companies pay their fair share of tax. It is a scandal that in recent years the majority of corporations in Canada have paid no tax at all even though the profits of such untaxed corporations have averaged between \$10 billion and \$12 billion each year. An effective corporate tax system is also needed to achieve greater stability in government revenues and to ensure that tax measures do indeed promote their avowed objectives of increasing investment and jobs.

The White Paper proposes a number of significant changes to the corporate tax system, including a tightening up of fast write-offs for new investment in machinery and equipment and elimination of some special breaks in the resource, finance and real estate sectors. At the same time, the general corporate tax rate will be cut from 36% to 28%, and the special rate for manufacturing will be cut from 30% to 23%. The overall result will be to increase corporate income tax revenues by \$470 million in 1988, rising to an additional \$1.58 billion in 1992 when the changes are fully phased in.

Mr. Wilson claims that these changes will ensure that “corporations will carry a bigger share of the total tax load,” but the extent of the increase is modest even if government figures are taken at face value. To put the so-called “bigger share” into perspective, it should be recalled that the recent U.S. tax reform hiked corporate taxes by a total of \$120 billion over 5 years. The comparable Canadian figure is a \$5 billion total revenue increase over 5 years — or less than one half the U.S. increase relative to the size of corporate profits in the two countries.

Even with this increase in total revenues, corporate tax reform will result in significant tax reductions for many Canadian companies. While the average tax paid on profits will increase very marginally from 18.7% to 19.6%, the average will actually fall in a number of sectors. The only sectors to experience an increase will be mining (from 15% to 16.6%), manufacturing (from 18.9% to 19.7%) and finance (14.5% to 21.3%). In fact the Committee was skeptical that increases in the finance sector will be on anything like the scale suggested by Mr. Wilson.

Conservative “reform” of the tax system income tax will — if fully implemented — increase the share of the corporate income tax as a proportion of the total federal income and sales tax burden from 15.6% in 1987-1988 to 17.2% in 1991-92, but the proportion will still be below the 20.3% level when the Conservatives were elected.

The modest nature of Tory tax “reform” can be highlighted by comparison to the new U.S. tax laws which, as noted above, raised business income taxes by twice the amount of the Wilson proposals. In the U.S. there is a minimum tax of 20% of corporate profits; no such tax is proposed for Canada and indeed the White Paper itself estimates that 60,000 profitable Canadian corporations will continue to entirely escape payment of tax. In the U.S., is taxed on the same basis as other corporate profits, while in Canada 25% of such income will still not be liable to tax even when tax reform is fully phased in.

The White Paper also failed to move in some key areas which have caused concern. Interest costs incurred in corporate takeovers will continue to be deductible, and many lucrative tax breaks remain within the system. On balance, then, Tory “reform” of the corporate tax system can be judged a very modest gesture in the direction of greater fairness which fails to truly deliver what has been promised.

The Committee has moved some distance towards improving the White Paper proposals on corporate tax. We would, however, propose further measures.

The carry-forward of unused tax losses and deductions for up to seven years is a major underlying reason why profitable companies are able to avoid tax and corporate tax revenues fluctuate wildly from year to year. Indeed 35,000 companies will continue to escape tax after tax reform if no change is made to these provisions.

We are concerned that the deductibility of interest costs incurred in corporate take-overs will continue after tax reform, since tax revenues are in effect being used to encourage corporate concentration and unproductive mergers which result in job losses. Changes in this area must be sensitive to the need not to give foreign bidders for Canadian companies a competitive advantage, a problem that could be addressed by tighter rules on foreign ownership or by other administrative means. We are encouraged that the U.S. Congress is now considering new measures to limit interest deductibility.

Recommendation 7

Special treatment for capital gains relative to other corporate profits should be eliminated. Tax measures which favour large profitable corporations, such as the 7-year carry-forward/2-year carry-back loss provisions and deductibility of interest costs incurred in corporate take-overs should be reviewed.

The Committee has gone some way towards recognising and addressing the problem of untaxed profits and inter-corporate dividends. We particularly welcome those recommendations which will bring dividend income deductions more closely into line with the tax actually paid by the originating corporation, and which will impose fairer taxes on financial institutions. However, we continue to believe that a corporate minimum tax is needed to cover other reasons for minimal tax payment and to *ensure* that corporations earning profits are indeed obliged to pay tax. Such a measure is essential if the perception — as well as the reality — of fairness is to be restored to the tax system. The existence of a 20% corporate minimum tax in the U.S. demonstrates that technical problems are by no means insurmountable, and we urge that such a measure be implemented as a central element of tax reform while recognising that — to the extent reform is successful — such a minimum tax should only rarely come into play since corporate profits will indeed be liable to tax as a result of other measures. It should not be forgotten that — if the White Paper proposals are implemented as they now stand — 60,000 profitable corporations will continue to avoid tax.

Recommendation 8

That a corporate minimum tax be implemented.

The White Paper proposals continue to leave in place a number of special deductions and write-offs which should be further reviewed in terms of effectiveness and cost-efficiency. This is particularly true of those measures which allow expenses to be written-off at a faster rate for tax purposes than on corporate financial statements. Further, we are concerned that the White Paper has not examined proposals to target tax incentives more efficiently or to tie such incentives more directly to government objectives.

The central approach has been to remove or reduce corporate tax breaks while lowering corporate tax rates, an approach which explicitly recognizes the need to

maintain after tax reform a healthy rate of investment and a tax regime which does not impose undue competitive disadvantages on Canadian businesses. While recognizing the broad validity of this approach, we are concerned that the replacement of tax incentives with lower rates does not address a number of key problems.

To summarise, both tax deductions and low rates tend to favour large, well-established and well capitalised corporations at the expense of new businesses (especially small businesses) and companies in financial difficulties, for the obvious reason that both lack large taxable profits. The reliance on corporate tax deductions to stimulate investment has meant that large companies pay lower rates of tax than the small and medium sized companies (which in fact create the vast majority of new jobs), and that tax incentives have largely failed to benefit the weaker economic regions.

There have been some significant exceptions like investment tax credits for the regions. Flow through share provisions have also benefitted small companies and the sectors but are so broadly designed that large, well established corporations which do not need the assistance have also benefitted.

Recommendation 9

We urge the development of tax measures which are specifically targetted to smaller companies and to regions in need of investment.

We are disappointed that the Committee did not recommend alternative measures to encourage mineral exploration when the earned depletion allowance is phased out.

In our view, a share of the increased corporate revenues from real tax reform should be directed to small business and regions in need of economic development assistance in the form of either direct grants or investment tax credits. Such a policy would also help secure a greater degree of accountability for corporate tax expenditures.

7. A More Accountable Tax System

Government spending through the “hidden budget” of tax measures is as massive as it is unscrutinised. Analysts of tax expenditures point out that these measures — deductions, credits, special rates and the like — are designed not to raise revenue but to provide subsidies to activities which governments wish to encourage. As such, they should be evaluated on the same basis as direct government spending, according to such key criteria as efficiency, cost effectiveness, and fairness.

As the Nielsen Report on *Services and Subsidies to Business* argued, direct spending programs by government always involve prior studies on program design and delivery, complex internal audit and accountability procedures, and scrutiny of the spending of Departments by special internal units and a number of central government agencies such as Treasury Board, Parliamentary committees, and the Auditor General. But in the words of the Nielsen Report “taxation is a different world”. Often there is

little clear evidence that a tax break will induce real changes, while spending programs are almost always subject to effectiveness tests. In addition, there is much evidence that direct spending is more cost efficient in many instances. Corporate tax breaks taken as a whole are, for example, a remarkably inefficient way of creating jobs. Certainly tax measures suffer from a number of defects in terms of efficiency and accountability — one of the most important being “automaticity”, the fact that no lid can be placed on a tax expenditure program because all those qualified will be granted the deduction.

It is unfortunate that the Nielsen Task Force — while calling for greater efforts to evaluate the cost effectiveness of tax expenditure programs and sunset provisions on any new measures — spent only 221 pages out of 6500 pages examining this issue, and that it accepted the dominant view of large corporations and the wealthy that spending through the tax system is to be preferred because it involves less interference with private decision-making. It must be said, however, that the goal of efficiency is ill served when there is no adequate mechanism for the review of government tax expenditures which run to the tens of billions of dollars. The Auditor General pointed out in his 1984 Report that the federal government now spends 30¢-50¢ through the tax system for every \$1 of government spending, and the Nielsen Task Force estimated that 1983 tax expenditures totalled \$36 billion compared to direct expenditures of \$57 billion. Clearly this massive “hidden budget” should be spent in an efficient and accountable manner to the greatest degree possible.

Recommendation 10

We urge that each tax expenditure program should be assigned to the relevant Department for review and consideration vis-à-vis alternative policy instruments; that an appropriate tax expenditure analysis should be presented annually with the spending estimates, the Budget, and the Public Accounts; and that tax expenditures should be integrated with the spending envelope system, and be subject to the approval of Parliament.

The key point is that the costs, rationale and objectives of tax expenditure programs should be made public in such a way as to facilitate full accountability.

8. A Simpler Tax System

Neither the White Paper nor the committee paid close attention to the issue of simplicity despite this being a stated objective of tax reform and a major concern of average taxpayers.

The personal income tax system should be made as clear and intelligible as possible in order to help restore public co-operation and trust. The average tax form is twenty times as long as it was thirty years ago, forcing even ordinary Canadian taxpayers to use expensive tax professionals to complete their returns.

A recent survey commissioned by Revenue Canada revealed that, in 1986, 51% of tax filers had someone else fill out their returns and 32% paid a tax preparer for that help. Tragically, this includes a large number of low-income Canadians who can ill afford the assistance of a tax firm or consultant.

This same Revenue Canada survey found that average taxpayers have found the tax form to be even less comprehensible since the election of the Mulroney government. In fact, the proportion of Canadians who have found the tax form to be excessively complex has doubled since that time, from 13% to 27%.

Recommendation 11

The government should develop a simple, plain language tax form that is readily accessible to all tax filers, and Revenue Canada officials should be available to meet with taxpayers on a regular basis to assist in tax filing.

Conclusions

Opportunities to implement comprehensive tax reform rarely arise because powerful vested interests almost invariably resist real change while the general sentiment in favour of fairness is diffuse and hard to focus. The tax "reform" implemented in the wake of the Carter Commission almost 20 years ago fell far short of what was, in many respects, a blueprint for a much fairer tax system. The opportunity now before us must not be similarly wasted.

One way or another the Canadian tax system will be overhauled in 1988 because the current structure is unacceptable to all sectors of opinion and, quite frankly, because reform cannot be avoided in the wake of the massive overhaul of the U.S. tax laws. It does, however, very much remain to be seen if ordinary Canadians will gain a fairer tax system, or just a different tax system. Certainly New Democrats will continue to fight for a system which shifts the burden from average and lower income Canadians to the wealthy and to profitable corporations, and which helps secure growth and jobs in an efficient way. Any tax reform that does not accomplish the central objectives of fairness, efficiency and simplicity will not be worthy of the name.

Michael Cassidy
M.P. for Ottawa Centre
and
Simon de Jong
M.P. for Regina East

A copy of the relevant Minutes of Proceedings and Evidence of the Standing Committee on Finance and Economic Affairs (*Issues no. 70, 71, 73 to 77, 78 to 124 inclusive and no. 125 which includes this report*) is tabled.

Respectfully submitted,

Don Blenkarn, M.P.
Chairman

MINUTES OF PROCEEDINGS

TUESDAY, JUNE 23, 1987
(95)

The Standing Committee on Finance and Economic Affairs met *in camera* at 9:36 o'clock a.m. this day, in Room 209 (West Block) the Chairman, Don Blenkarn, presiding.

Members of the Committee present: Bill Attewell, Don Blenkarn, Michael Cassidy, Raymond Garneau, Bob Layton, W. Paul McCrossan, George Minaker, Norman Warner and Geoff Wilson.

In attendance: From the Committee's Research Staff: C. David Weyman, Research Director (Tax Reform); H. Bert Waslander, Research Director; Sean Aylward, Geoff Fisher and Barbara McKay, Research Officers. *From the Research Branch of the Library of Parliament:* Laurent Desbois and Terrence J. Thomas, Research Officers.

Pursuant to Standing Order 96(2), the Committee resumed consideration of the White Paper and other related documents on Tax Reform tabled in the House of Commons on Thursday, June 18, 1987. (*See Minutes of Proceedings and Evidence, Monday, June 22, 1987, Issue No. 70*).

The Committee proceeded to the consideration of its future business.

At 10:59 o'clock a.m., the Committee adjourned to the call of the Chair.

MONDAY, AUGUST 24, 1987
(103)

The Standing Committee on Finance and Economic Affairs met *in camera* at 9:37 o'clock a.m. this day, in Room 308 (West Block) the Chairman, Don Blenkarn, presiding.

Members of the Committee present: Bill Attewell, Don Blenkarn, Michael Cassidy, Raymond Garneau, W. Paul McCrossan, George Minaker, Aileen Nicholson, Norman Warner and Geoff Wilson.

In attendance: From the Committee's Research Staff: C. David Weyman, Research Director (Tax Reform); H. Bert Waslander, Research Director; Sean Aylward, France Castonguay, Kirk Falconer, Geoff Fisher, Anthony Knill, Edwin Grant Kroft and Barbara MacKay, Research Officers. *From the Research Branch of the Library of Parliament:* Terrence J. Thomas, Research Officer. *From David Humphreys Public Affairs Group:* David Humphreys.

Pursuant to Standing Order 96(2), the Committee resumed consideration of the White Paper and other related documents on Tax Reform tabled in the House of Commons on Thursday, June 18, 1987. (*See Minutes of Proceedings and Evidence, Monday, June 22, 1987, Issue No. 70*).

The Committee proceeded to the consideration of its future business.

At 11:42 o'clock a.m., the Committee adjourned to the call of the Chair.

TUESDAY, SEPTEMBER 15, 1987
(129)

The Standing Committee on Finance and Economic Affairs met *in camera* at 12:10 o'clock p.m. this day, in Room 209 (West Block) the Chairman, Don Blenkarn, presiding.

Members of the Committee present: Bill Attewell, Don Blenkarn, Simon de Jong, Murray Dorin, Raymond Garneau, W. Paul McCrossan, Aileen Nicholson, Norman Warner and Geoff Wilson.

In attendance: C. David Weyman, Research Director (Tax Reform); H. Bert Waslander, Research Director; Sean Aylward, France Castonguay, Kirk Falconner, Geoff Fisher, Anthony Knill, Edwin Kroft and Barbara MacKay, Research Officers. *From the Research Branch of the Library of Parliament:* Terrence J. Thomas, Research Officer. *From David Humphreys Public Affairs Group:* David Humphreys, Margot Maguire.

In accordance with its mandate under Standing Order 96(2), the Committee resumed consideration of the White Paper and other related documents on Tax Reform tabled in the House of Commons on Thursday, June 18, 1987. (*See Minutes of Proceedings and Evidence, Monday, June 22, 1987, Issue No. 70*).

The Committee proceeded to the consideration of the draft Report to the House.

At 1:30 o'clock p.m., the Committee adjourned to the call of the Chair.

TUESDAY, OCTOBER 6, 1987
(158)

The Standing Committee on Finance and Economic Affairs met *in camera* at 9:51 o'clock a.m. this day, in Room 253-D Centre Block, the Chairman, Don Blenkarn, presiding.

Members of the Committee present: Don Blenkarn, Michael Cassidy, Simon de Jong, Murray Dorin, Raymond Garneau, W. Paul McCrossan, George Minaker, Aileen Nicholson and Norman Warner.

Other Member present: Geoff Wilson for Mary Collins.

In attendance: From the Committee's Research Staff: C. David Weyman, Research Director (Tax Reform); H. Bert Waslander, Research Director; Sean Aylward, France Castonguay, Kirk Falconer, Geoff Fisher, Anthony Knill, Edwin Kroft and Barbara MacKay, Research Officers.

In accordance with its mandate under Standing Order 96(2), the Committee resumed consideration of the White Paper and other related documents on Tax Reform tabled in the House of Commons on Thursday, June 18, 1987. (*See Minutes of Proceedings and Evidence, Monday, June 22, 1987, Issue No. 70*).

The Committee proceeded to the consideration of the draft report to the House.

At 1:14 o'clock p.m., the Committee adjourned to the call of the Chair.

THURSDAY, OCTOBER 8, 1987
(164)

The Standing Committee on Finance and Economic Affairs met *in camera* at 12:15 o'clock p.m. this day, in Room 253-D Centre Block, the Chairman, Don Blenkarn, presiding.

Members of the Committee present: Bill Attewell, Don Blenkarn, Michael Cassidy, Raymond Garneau, W. Paul McCrossan, Aideen Nicholson and Norman Warner.

In attendance: From the Committee's Research Staff: C. David Weyman, Research Director (Tax Reform); H. Bert Waslander, Research Director; Sean Aylward, France Castonguay, Kirk Falconer, Geoff Fisher, Anthony Knill, Edwin Kroft and Barbara MacKay, Research Officers. *From the Research Branch of the Library of Parliament:* Terrence J. Thomas, Research Officer.

In accordance with its mandate under Standing Order 96(2), the Committee resumed consideration of the White Paper and other related documents on Tax Reform tabled in the House of Commons on Thursday, June 18, 1987. (*See Minutes of Proceedings and Evidence, Monday, June 22, 1987, Issue No. 70*).

The Committee proceeded to the consideration of the draft Report to the House.

At 1:29 o'clock p.m., the Committee adjourned to the call of the Chair.

TUESDAY, OCTOBER 13, 1987
(166)

The Standing Committee on Finance and Economic Affairs met *in camera* at 2:00 o'clock p.m. this day, in Mont Ste-Marie, Quebec, the Chairman, Don Blenkarn, presiding.

Members of the Committee present: Bill Attewell, Suzanne Blais-Grenier, Don Blenkarn, Michael Cassidy, Simon de Jong, Murray Dorin, Raymond Garneau, Robert E.J. Layton, W. Paul McCrossan, George Minaker, Aideen Nicholson and Norman Warner.

Acting Member present: Geoff Wilson for Mary Collins.

In attendance: From the Committee's Research Staff: C. David Weyman, Research Director (Tax Reform); H. Bert Waslander, Research Director; Sean Aylward, France Castonguay, Geoff Fisher, Anthony Knill, Edwin Kroft and Barbara McKay, Research Officers. *From the Research Branch of the Library of Parliament:* Terrence J. Thomas, Research Officer.

In accordance with its mandate under Standing Order 96(2), the Committee resumed consideration of the White Paper and other related documents on Tax Reform tabled in the House of Commons on Thursday, June 18, 1987. (*See Minutes of Proceedings and Evidence, Monday, June 22, 1987, Issue No. 70*).

The Committee resumed consideration of the draft Report to the House.

At 4:14 o'clock p.m., the sitting was suspended.

At 4:22 o'clock p.m., the sitting was resumed.

At 5:42 o'clock p.m., the Committee adjourned to the call of the Chair.

TUESDAY, OCTOBER 13, 1987
(167)

The Standing Committee on Finance and Economic Affairs met in camera at 7:52 o'clock p.m. this day, in Mont Ste-Marie, Quebec, the Chairman, Don Blenkarn, presiding.

Members of the Committee present: Bill Attewell, Suzanne Blais-Grenier, Don Blenkarn, Michael Cassidy, Simon de Jong, Murray Dorin, Raymond Garneau, Robert E.J. Layton, W. Paul McCrossan, George Minaker, Aideen Nicholson and Norman Warner.

Acting Member present: Geoff Wilson for Mary Collins.

In attendance: From the Committee's Research Staff: C. David Weyman, Research Director (Tax Reform); H. Bert Waslander, Research Director; Sean Aylward, France Castonguay, Geoff Fisher, Anthony Knill, Edwin Kroft and Barbara McKay, Research Officers. *From the Research Branch of the Library of Parliament:* Terrence J. Thomas, Research Officer.

In accordance with its mandate under Standing Order 96(2), the Committee resumed consideration of the White Paper and other related documents on Tax Reform tabled in the House of Commons on Thursday, June 18, 1987. (*See Minutes of Proceedings and Evidence, Monday, June 22, 1987, Issue No. 70*).

The Committee resumed consideration of the draft Report to the House.

At 9:53 o'clock p.m., the Committee adjourned to the call of the Chair.

WEDNESDAY, OCTOBER 14, 1987
(168)

The Standing Committee on Finance and Economic Affairs met *in camera* at 9:05 o'clock a.m. this day, in Mont Ste-Marie, Quebec, the Chairman, Don Blenkarn, presiding.

Members of the Committee present: Bill Attewell, Suzanne Blais-Grenier, Don Blenkarn, Michael Cassidy, Simon de Jong, Murray Dorin, Raymond Garneau, Robert E.J. Layton, W. Paul McCrossan, George Minaker, Aideen Nicholson and Norman Warner.

Acting Member present: Geoff Wilson for Mary Collins.

In attendance: From the Committee's Research Staff: C. David Weyman, Research Director (Tax Reform); H. Bert Waslander, Research Director; Sean Aylward, France Castonguay, Geoff Fisher, Anthony Knill, Edwin Kroft and Barbara McKay, Research Officers. *From the Research Branch of the Library of Parliament:* Terrence J. Thomas, Research Officer.

In accordance with its mandate under Standing Order 96(2), the Committee resumed consideration of the White Paper and other related documents on Tax Reform tabled in the House of Commons on Thursday, June 18, 1987. (*See Minutes of Proceedings and Evidence, Monday, June 22, 1987, Issue No. 70*).

The Committee resumed consideration of the draft Report to the House.

At 10:38 o'clock a.m., the sitting was suspended.

At 10:57 o'clock a.m., the sitting was resumed.

The Committee resumed consideration of the draft Report to the House.

At 12:09 o'clock p.m., the Committee adjourned to the call of the Chair.

WEDNESDAY, OCTOBER 14, 1987
(169)

The Standing Committee on Finance and Economic Affairs met *in camera* at 2:05 o'clock p.m. this day, in Mont Ste-Marie, Quebec, the Chairman, Don Blenkarn, presiding.

Members of the Committee present: Bill Attewell, Suzanne Blais-Grenier, Don Blenkarn, Michael Cassidy, Simon de Jong, Murray Dorin, Raymond Garneau, Robert E.J. Layton, W. Paul McCrossan, George Minaker, Aideen Nicholson and Norman Warner.

Acting Member present: Geoff Wilson for Mary Collins.

In attendance: From the Committee's Research Staff: C. David Weyman, Research Director (Tax Reform); H. Bert Waslander, Research Director; Sean Aylward, France Castonguay, Geoff Fisher, Anthony Knill, Edwin Kroft and Barbara

McKay, Research Officers. *From the Research Branch of the Library of Parliament*: Terrence J. Thomas, Research Officer.

In accordance with its mandate under Standing Order 96(2), the Committee resumed consideration of the White Paper and other related documents on Tax Reform tabled in the House of Commons on Thursday, June 18, 1987. (*See Minutes of Proceedings and Evidence, Monday, June 22, 1987, Issue No. 70*).

The Committee resumed consideration of the draft Report to the House.

At 3:45 o'clock p.m., the sitting was suspended.

At 3:58 o'clock p.m., the sitting was resumed.

At 5:54 o'clock p.m., the Committee adjourned to the call of the Chair.

WEDNESDAY, OCTOBER 14, 1987
(170)

The Standing Committee on Finance and Economic Affairs met *in camera* at 7:50 o'clock p.m. this day, in Mont Ste-Marie, Quebec, the Chairman, Don Blenkarn, presiding.

Members of the Committee present: Bill Attewell, Suzanne Blais-Grenier, Don Blenkarn, Michael Cassidy, Simon de Jong, Murray Dorin, Raymond Garneau, Robert E.J. Layton, W. Paul McCrossan, George Minaker, Aideen Nicholson and Norman Warner.

Acting Member present: Geoff Wilson for Mary Collins.

In attendance: From the Committee's Research Staff: C. David Weyman, Research Director (Tax Reform); H. Bert Waslander, Research Director; Sean Aylward, France Castonguay, Geoff Fisher, Anthony Knill, Edwin Kroft and Barbara McKay, Research Officers. *From the Research Branch of the Library of Parliament*: Terrence J. Thomas, Research Officer.

In accordance with its mandate under Standing Order 96(2), the Committee resumed consideration of the White Paper and other related documents on Tax Reform tabled in the House of Commons on Thursday, June 18, 1987. (*See Minutes of Proceedings and Evidence, Monday, June 22, 1987, Issue No. 70*).

The Committee resumed consideration of the draft Report to the House.

At 9:58 o'clock p.m., the Committee adjourned to the call of the Chair.

THURSDAY, OCTOBER 15, 1987
(171)

The Standing Committee on Finance and Economic Affairs met *in camera* at 8:36 o'clock a.m. this day, in Mont Ste-Marie, Quebec, the Chairman, Don Blenkarn, presiding.

Members of the Committee present: Bill Attewell, Suzanne Blais-Grenier, Don Blenkarn, Michael Cassidy, Simon de Jong, Murray Dorin, Raymond Garneau, Robert E.J. Layton, W. Paul McCrossan, George Minaker, Aideen Nicholson and Norman Warner.

Acting Member present: Geoff Wilson for Mary Collins.

In attendance: From the Committee's Research Staff: C. David Weyman, Research Director (Tax Reform); H. Bert Waslander, Research Director; Sean Aylward, France Castonguay, Geoff Fisher, Anthony Knill, Edwin Kroft and Barbara McKay, Research Officers. *From the Research Branch of the Library of Parliament:* Terrence J. Thomas, Research Officer.

In accordance with its mandate under Standing Order 96(2), the Committee resumed consideration of the White Paper and other related documents on Tax Reform tabled in the House of Commons on Thursday, June 18, 1987. (*See Minutes of Proceedings and Evidence, Monday, June 22, 1987, Issue No. 70*).

The Committee resumed consideration of the draft Report to the House.

At 9:47 o'clock a.m. the sitting was suspended.

At 10:01 o'clock a.m., the sitting was resumed.

At 12:14 o'clock p.m., the Committee adjourned to the call of the Chair.

THURSDAY, OCTOBER 15, 1987
(172)

The Standing Committee on Finance and Economic Affairs met *in camera* at 1:32 o'clock p.m. this day, in Mont Ste-Marie, Quebec, the Chairman, Don Blenkarn, presiding.

Members of the Committee present: Bill Attewell, Suzanne Blais-Grenier, Don Blenkarn, Michael Cassidy, Simon de Jong, Murray Dorin, Raymond Garneau, Robert E.J. Layton, W. Paul McCrossan, George Minaker, Aideen Nicholson and Norman Warner.

Acting Member present: Geoff Wilson for Mary Collins.

In attendance: From the Committee's Research Staff: C. David Weyman, Research Director (Tax Reform); H. Bert Waslander, Research Director; Sean Aylward, France Castonguay, Geoff Fisher, Anthony Knill, Edwin Kroft and Barbara McKay, Research Officers. *From the Research Branch of the Library of Parliament:* Terrence J. Thomas, Research Officer.

In accordance with its mandate under Standing Order 96(2), the Committee resumed consideration of the White Paper and other related documents on Tax Reform tabled in the House of Commons on Thursday, June 18, 1987. (*See Minutes of Proceedings and Evidence, Monday, June 22, 1987, Issue No. 70*).

The Committee proceeded to the consideration of its future business.

At 2:27 o'clock p.m., the Committee adjourned to the call of the Chair.

TUESDAY, OCTOBER 20, 1987
(173)

The Standing Committee on Finance and Economic Affairs met *in camera* at 9:56 o'clock a.m. this day, in Room 253-D Centre Block, the Chairman, Don Blenkarn, presiding.

Members of the Committee present: Bill Attewell, Don Blenkarn, Michael Cassidy, Simon de Jong, Murray Dorin, Raymond Garneau, Robert E.J. Layton, W. Paul McCrossan, George Minaker and Norman Warner.

In attendance: From the Committee's Research Staff: C. David Weyman, Research Director (Tax Reform); H. Bert Waslander, Research Director; France Castonguay, Geoff Fisher and Anthony Knill, Research Officers. *From the Research Branch of the Library of Parliament:* Terrence J. Thomas, Research Officer.

In accordance with its mandate under Standing Order 96(2), the Committee resumed consideration of the White Paper and other related documents on Tax Reform tabled in the House of Commons on Thursday, June 18, 1987. (*See Minutes of Proceedings and Evidence, Monday, June 22, 1987, Issue No. 70*).

The Committee resumed consideration of the draft Report to the House.

At 12:11 o'clock p.m., the Committee adjourned to the call of the Chair.

TUESDAY, OCTOBER 20, 1987
(174)

The Standing Committee on Finance and Economic Affairs met *in camera* at 3:46 o'clock p.m. this day, in Room 253-D Centre Block, the Chairman, Don Blenkarn, presiding.

Members of the Committee present: Don Blenkarn, Michael Cassidy, Simon de Jong, Murray Dorin, Robert E.J. Layton, Aideen Nicholson, George Minaker and Norman Warner.

In attendance: From the Committee's Research Staff: C. David Weyman, Research Director (Tax Reform); H. Bert Waslander, Research Director; France Castonguay, Geoff Fisher, Anthony Knill, Edwin Kroft and Barbara McKay, Research Officers. *From the Research Branch of the Library of Parliament:* Terrence J. Thomas, Research Officer.

In accordance with its mandate under Standing Order 96(2), the Committee resumed consideration of the White Paper and other related documents on Tax Reform tabled in the House of Commons on Thursday, June 18, 1987. (*See Minutes of Proceedings and Evidence, Monday, June 22, 1987, Issue No. 70*).

The Committee resumed consideration of the draft Report to the House.

At 5:54 o'clock p.m., the Committee adjourned to the call of the Chair.

TUESDAY, OCTOBER 20, 1987
(175)

The Standing Committee on Finance and Economic Affairs met *in camera* at 8:13 o'clock p.m. this day, in Room 253-D Centre Block, the Vice-Chairman, Robert E.J. Layton, presiding.

Members of the Committee present: Michael Cassidy, Simon de Jong, Murray Dorin, Robert E.J. Layton, W. Paul McCrossan, Aileen Nicholson and Norman Warner.

In attendance: From the Committee's Research Staff: C. David Weyman, Research Director (Tax Reform); H. Bert Waslander, Research Director; Sean Aylward, France Castonguay, Kirk Falconer, Geoff Fisher, Anthony Knill, Edwin Kroft and Barbara McKay, Research Officers. *From the Research Branch of the Library of Parliament:* Terrence J. Thomas, Research Officer.

In accordance with its mandate under Standing Order 96(2), the Committee resumed consideration of the White Paper and other related documents on Tax Reform tabled in the House of Commons on Thursday, June 18, 1987. (*See Minutes of Proceedings and Evidence, Monday, June 22, 1987, Issue No. 70*).

The Committee resumed consideration of the draft Report to the House.

At 9:59 o'clock p.m., the Committee adjourned to the call of the Chair.

WEDNESDAY, OCTOBER 21, 1987
(176)

The Standing Committee on Finance and Economic Affairs met *in camera* at 3:40 o'clock p.m. this day, in Room 253-D Centre Block, the Chairman, Don Blenkarn, presiding.

Members of the Committee present: Don Blenkarn, Michael Cassidy, Simon de Jong, Murray Dorin, Raymond Garneau, W. Paul McCrossan, Aileen Nicholson and Norman Warner.

Acting Member present: Geoff Wilson for Mary Collins.

In attendance: From the Committee's Research Staff: C. David Weyman, Research Director (Tax Reform); France Castonguay, Geoff Fisher, Anthony Knill, Edwin Kroft and Barbara McKay, Research Officers. *From the Research Branch of the Library of Parliament:* Terrence J. Thomas, Research Officer.

Witness: From Peat Marwick: Andy Friedman, Senior Tax Advisor.

In accordance with its mandate under Standing Order 96(2), the Committee resumed consideration of the White Paper and other related documents on Tax Reform tabled in the House of Commons on Thursday, June 18, 1987. (*See Minutes of Proceedings and Evidence, Monday, June 22, 1987, Issue No. 70*).

Andy Friedman answered questions.

At 4:35 o'clock p.m., the sitting was suspended.

At 4:40 o'clock p.m., the sitting was resumed.

The Committee proceeded to the consideration of the draft Report to the House.

At 5:30 o'clock p.m., the Committee adjourned to the call of the Chair.

WEDNESDAY, OCTOBER 21, 1987
(177)

The Standing Committee on Finance and Economic Affairs met *in camera* at 8:16 o'clock p.m. this day, in Room 253-D Centre Block, the Vice-Chairman, Robert E.J. Layton, presiding.

Members of the Committee present: Don Blenkarn, Michael Cassidy, Murray Dorin, Raymond Garneau, Robert E.J. Layton, W. Paul McCrossan and Aileen Nicholson.

In attendance: From the Committee's Research Staff: C. David Weyman, Research Director (Tax Reform); H. Bert Waslander, Research Director.

In accordance with its mandate under Standing Order 96(2), the Committee resumed consideration of the White Paper and other related documents on Tax Reform tabled in the House of Commons on Thursday, June 18, 1987. (*See Minutes of Proceedings and Evidence, Monday, June 22, 1987, Issue No. 70*).

The Committee resumed consideration of the draft Report to the House.

At 10:24 o'clock p.m., the Committee adjourned to the call of the Chair.

THURSDAY, OCTOBER 22, 1987
(178)

The Standing Committee on Finance and Economic Affairs met *in camera* at 10:13 o'clock a.m. this day, in Room 253-D Centre Block, the Chairman, Don Blenkarn, presiding.

Members of the Committee present: Don Blenkarn, Michael Cassidy, Simon de Jong, Raymond Garneau, Robert E.J. Layton and George Minaker.

Acting Member present: Geoff Wilson for Mary Collins.

In attendance: From the Committee's Research Staff: C. David Weyman, Research Director (Tax Reform); H. Bert Waslander, Research Director; Sean Aylward, France Castonguay, Kirk Falconer, Geoff Fisher, Anthony Knill, Edwin Kroft and Barbara McKay, Research Officers. *From the Research Branch of the Library of Parliament:* Terrence J. Thomas, Research Officer.

In accordance with its mandate under Standing Order 96(2), the Committee resumed consideration of the White Paper and other related documents on Tax Reform tabled in the House of Commons on Thursday, June 18, 1987. (*See Minutes of Proceedings and Evidence, Monday, June 22, 1987, Issue No. 70*).

The Committee resumed consideration of the draft Report to the House.

At 12:34 o'clock p.m., the Committee adjourned to the call of the Chair.

THURSDAY, OCTOBER 22, 1987
(179)

The Standing Committee on Finance and Economic Affairs met *in camera* at 3:39 o'clock p.m. this day, in Room 253-D Centre Block, the Chairman, Don Blenkarn, presiding.

Members of the Committee present: Don Blenkarn, Michael Cassidy, Simon de Jong, Raymond Garneau, Robert E.J. Layton, George Minaker and Aileen Nicholson.

Acting Member present: Geoff Wilson for Mary Collins.

In attendance: From the Committee's Research Staff: C. David Weyman, Research Director (Tax Reform); H. Bert Waslander, Research Director; Sean Aylward, France Castonguay, Kirk Falconer, Geoff Fisher, Anthony Knill, Research Officers. *From the Research Branch of the Library of Parliament:* Terrence J. Thomas, Research Officer.

Witness: From the Canadian Bankers' Association: A.G. Kenyon, Senior Vice-President, Taxation, Canadian Imperial Bank of Commerce.

In accordance with its mandate under Standing Order 96(2), the Committee resumed consideration of the White Paper and other related documents on Tax Reform tabled in the House of Commons on Thursday, June 18, 1987. (*See Minutes of Proceedings and Evidence, Monday, June 22, 1987, Issue No. 70*).

The Committee resumed consideration of the draft Report to the House.

A.G. Kenyon answered questions.

At 4:36 o'clock p.m., the sitting was suspended.

At 4:42 o'clock p.m., the sitting was resumed.

At 6:07 o'clock p.m., the Committee adjourned to the call of the Chair.

MONDAY, OCTOBER 26, 1987
(180)

The Standing Committee on Finance and Economic Affairs met *in camera* at 3:50 o'clock p.m. this day, in Room 269, West Block, the Chairman, Don Blenkarn, presiding.

Members of the Committee present: Bill Attewell, Don Blenkarn, Michael Cassidy, Simon de Jong, Murray Dorin, Robert E.J. Layton and George Minaker.

In attendance: From the Committee's Research Staff: H. Bert Waslander, Research Director; Sean Aylward, France Castonguay, Geoff Fisher, Anthony Knill and Edwin Kroft, Research Officers. *From the Research Branch of the Library of Parliament:* Terrence J. Thomas, Research Officer.

In accordance with its mandate under Standing Order 96(2), the Committee resumed consideration of the White Paper and other related documents on Tax Reform tabled in the House of Commons on Thursday, June 18, 1987. (*See Minutes of Proceedings and Evidence, Monday, June 22, 1987, Issue No. 70*).

The Committee resumed consideration of the draft Report to the House.

At 5:41 o'clock p.m., the Committee adjourned to the call of the Chair.

MONDAY, OCTOBER 26, 1987
(181)

The Standing Committee on Finance and Economic Affairs met *in camera* at 8:17 o'clock p.m. this day, in Room 269, West Block, the Chairman, Don Blenkarn, presiding.

Members of the Committee present: Bill Attewell, Don Blenkarn, Murray Dorin, Aileen Nicholson and Norman Warner.

Other Member present: Geoff Wilson.

In attendance: From the Committee's Research Staff: H. Bert Waslander, Research Director; Sean Aylward, France Castonguay, Kirk Falconer, Geoff Fisher, Anthony Knill and Edwin Kroft, Research Officers. *From the Research Branch of the Library of Parliament:* Terrence J. Thomas, Research Officer.

In accordance with its mandate under Standing Order 96(2), the Committee resumed consideration of the White Paper and other related documents on Tax Reform tabled in the House of Commons on Thursday, June 18, 1987. (*See Minutes of Proceedings and Evidence, Monday, June 22, 1987, Issue No. 70*).

The Committee resumed consideration of the draft Report to the House.

At 10:02 o'clock p.m., the Committee adjourned to the call of the Chair.

TUESDAY, OCTOBER 27, 1987
(182)

The Standing Committee on Finance and Economic Affairs met *in camera* at 10:08 o'clock a.m. this day, in Room 269, West Block, the Chairman, Don Blenkarn, presiding.

Members of the Committee present: Bill Attewell, Don Blenkarn, Michael Cassidy, Murray Dorin, Raymond Garneau, Robert E.J. Layton, George Minaker and Norman Warner.

In attendance: From the Committee's Research Staff: H. Bert Waslander, Research Director; Sean Aylward, France Castonguay, Kirk Falconer, Geoff Fisher, Anthony Knill and Edwin Kroft, Research Officers. *From the Research Branch of the Library of Parliament:* Terrence J. Thomas, Research Officer.

In accordance with its mandate under Standing Order 96(2), the Committee resumed consideration of the White Paper and other related documents on Tax Reform tabled in the House of Commons on Thursday, June 18, 1987. (*See Minutes of Proceedings and Evidence, Monday, June 22, 1987, Issue No. 70*).

The Committee resumed consideration of the draft Report to the House.

At 12:30 o'clock p.m., the Committee adjourned to the call of the Chair.

TUESDAY, OCTOBER 27, 1987
(183)

The Standing Committee on Finance and Economic Affairs met *in camera* at 3:54 o'clock p.m. this day, in Room 269, West Block, the Chairman, Don Blenkarn, presiding.

Members of the Committee present: Bill Attewell, Don Blenkarn, Michael Cassidy, Murray Dorin, Raymond Garneau, Robert E.J. Layton, Aideen Nicholson and Norman Warner.

In attendance: From the Committee's Research Staff: H. Bert Waslander, Research Director; Sean Aylward, France Castonguay, Geoff Fisher, Anthony Knill and Edwin Kroft, Research Officers. *From the Research Branch of the Library of Parliament:* Terrence J. Thomas, Research Officer.

In accordance with its mandate under Standing Order 96(2), the Committee resumed consideration of the White Paper and other related documents on Tax Reform tabled in the House of Commons on Thursday, June 18, 1987. (*See Minutes of Proceedings and Evidence, Monday, June 22, 1987, Issue No. 70*).

The Committee resumed consideration of the draft Report to the House. At 5:01 o'clock p.m., Robert Layton took the Chair.

At 5:24 o'clock p.m., Don Blenkarn took the Chair.

At 5:57 o'clock p.m., the Committee adjourned to the call of the Chair.

TUESDAY, OCTOBER 27, 1987
(184)

The Standing Committee on Finance and Economic Affairs met *in camera* at 8:07 o'clock p.m. this day, in Room 269, West Block, the Chairman, Don Blenkarn, presiding.

Members of the Committee present: Don Blenkarn, Michael Cassidy, Raymond Garneau, Robert E.J. Layton, Aideen Nicholson and Norman Warner.

In attendance: From the Committee's Research Staff: H. Bert Waslander, Research Director; Sean Aylward, France Castonguay, Geoff Fisher, Anthony Knill and Edwin Kroft, Research Officers.

In accordance with its mandate under Standing Order 96(2), the Committee resumed consideration of the White Paper and other related documents on Tax Reform tabled in the House of Commons on Thursday, June 18, 1987. (*See Minutes of Proceedings and Evidence, Monday, June 22, 1987, Issue No. 70*).

The Committee resumed consideration of the draft Report to the House.

At 10:07 o'clock p.m., the Committee adjourned to the call of the Chair.

WEDNESDAY, OCTOBER 28, 1987
(185)

The Standing Committee on Finance and Economic Affairs met *in camera* at 3:55 o'clock p.m. this day, in Room 308, West Block, the Chairman, Don Blenkarn, presiding.

Members of the Committee present: Bill Attewell, Don Blenkarn, Michael Cassidy, Simon de Jong, Murray Dorin, Raymond Garneau, Robert E.J. Layton, George Minaker and Aideen Nicholson.

In attendance: From the Committee's Research Staff: H. Bert Waslander, Research Director; Sean Aylward, France Castonguay, Geoff Fisher, Anthony Knill and Edwin Kroft; Research Officers. *From the Research Branch of the Library of Parliament:* Terrence J. Thomas, Research Officer.

In accordance with its mandate under Standing Order 96(2), the Committee resumed consideration of the White Paper and other related documents on Tax Reform tabled in the House of Commons on Thursday, June 18, 1987. (*See Minutes of Proceedings and Evidence, Monday, June 22, 1987, Issue No. 70*).

The Committee resumed consideration of the draft Report to the House.

At 4:42 o'clock p.m., the sitting was suspended.

At 5:07 o'clock p.m., the sitting was resumed.

At 6:10 o'clock p.m., the Committee adjourned to the call of the Chair.

THURSDAY, OCTOBER 29, 1987
(186)

The Standing Committee on Finance and Economic Affairs met *in camera* at 9:57 o'clock a.m. this day, in Room 308, West Block, the Chairman, Don Blenkarn, presiding.

Members of the Committee present: Bill Attewell, Don Blenkarn, Michael Cassidy, Simon de Jong, Murray Dorin, Raymond Garneau, Robert E.J. Layton, George Minaker and Norman Warner.

In attendance: From the Committee's Research Staff: H. Bert Waslander, Research Director; Sean Aylward, Geoff Fisher, Anthony Knill and Edwin Kroft, Research Officers. *From the Research Branch of the Library of Parliament:* Terrence J. Thomas, Research Officer.

In accordance with its mandate under Standing Order 96(2), the Committee resumed consideration of the White Paper and other related documents on Tax Reform tabled in the House of Commons on Thursday, June 18, 1987. (*See Minutes of Proceedings and Evidence, Monday, June 22, 1987, Issue No. 70*).

The Committee resumed consideration of the draft Report to the House.

At 12:16 o'clock p.m., the Committee adjourned to the call of the Chair.

MONDAY, NOVEMBER 2, 1987
(187)

The Standing Committee on Finance and Economic Affairs met *in camera* at 10:15 o'clock a.m. this day, in Room 269, West Block, the Chairman, Don Blenkarn, presiding.

Members of the Committee present: Bill Attewell, Don Blenkarn, Simon de Jong, Raymond Garneau, Robert E.J. Layton, W. Paul McCrossan and Aideen Nicholson.

Acting Member present: Geoff Wilson for Mary Collins.

In attendance: From the Committee's Research Staff: C. David Weyman, Research Director (Tax Reform); H. Bert Waslander, Research Director; Geoff Fisher, Anthony Knill and Edwin Kroft, Research Officers. *From the Research Branch of the Library of Parliament:* Terrence J. Thomas, Research Officer.

In accordance with its mandate under Standing Order 96(2), the Committee resumed consideration of the White Paper and other related documents on Tax Reform tabled in the House of Commons on Thursday, June 18, 1987. (*See Minutes of Proceedings and Evidence, Monday, June 22, 1987, Issue No. 70*).

The Committee resumed consideration of the draft Report to the House.

At 12:31 o'clock p.m., the Committee adjourned to the call of the Chair.

MONDAY, NOVEMBER 2, 1987
(188)

The Standing Committee on Finance and Economic Affairs met *in camera* at 3:39 o'clock p.m. this day, in Room 269, West Block, the Chairman, Don Blenkarn, presiding.

Members of the Committee present: Bill Attewell, Don Blenkarn, Simon de Jong, Raymond Garneau, Robert E.J. Layton and W. Paul McCrossan.

Acting Member present: Geoff Wilson for Mary Collins.

In attendance: From the Committee's Research Staff: C. David Weyman, Research Director (Tax Reform); H. Bert Waslander, Research Director; Geoff Fisher, Anthony Knill and Edwin Kroft, Research Officers. *From the Research Branch of the Library of Parliament:* Terrence J. Thomas, Research Officer.

In accordance with its mandate under Standing Order 96(2), the Committee resumed consideration of the White Paper and other related documents on Tax Reform tabled in the House of Commons on Thursday, June 18, 1987. (*See Minutes of Proceedings and Evidence, Monday, June 22, 1987, Issue No. 70*).

The Committee resumed consideration of the draft Report to the House.

At 6:02 o'clock p.m., the Committee adjourned to the call of the Chair.

MONDAY, NOVEMBER 2, 1987
(189)

The Standing Committee on Finance and Economic Affairs met *in camera* at 8:11 o'clock p.m. this day, in Room 269, West Block, the Chairman, Don Blenkarn, presiding.

Members of the Committee present: Bill Attewell, Don Blenkarn, Simon de Jong, Raymond Garneau, Robert E.J. Layton and W. Paul McCrossan.

Acting Member present: Geoff Wilson for Mary Collins.

In attendance: From the Committee's Research Staff: C. David Weyman, Research Director (Tax Reform); H. Bert Waslander, Research Director; Geoff Fisher, Anthony Knill and Edwin Kroft, Research Officers. *From the Research Branch of the Library of Parliament:* Terrence J. Thomas, Research Officer.

In accordance with its mandate under Standing Order 96(2), the Committee resumed consideration of the White Paper and other related documents on Tax Reform tabled in the House of Commons on Thursday, June 18, 1987. (*See Minutes of Proceedings and Evidence, Monday, June 22, 1987, Issue No. 70*).

The Committee resumed consideration of the draft Report to the House.

At 9:59 o'clock p.m., the Committee adjourned to the call of the Chair.

TUESDAY, NOVEMBER 3, 1987
(190)

The Standing Committee on Finance and Economic Affairs met *in camera* at 9:38 o'clock a.m. this day, in Room 269, West Block, the Chairman, Don Blenkarn, presiding.

Members of the Committee present: Bill Attewell, Don Blenkarn, Michael Cassidy, Simon de Jong, Murray Dorin, Raymond Garneau, Robert E.J. Layton, W. Paul McCrossan, Aideen Nicholson and Norman Warner.

Acting Member present: Geoff Wilson for Mary Collins.

In attendance: From the Committee's Research Staff: C. David Weyman, Research Director (Tax Reform); H. Bert Waslander, Research Director; Geoff Fisher, Anthony Knill and Edwin Kroft, Research Officers. *From the Research Branch of the Library of Parliament:* Terrence J. Thomas, Research Officer.

In accordance with its mandate under Standing Order 96(2), the Committee resumed consideration of the White Paper and other related documents on Tax Reform tabled in the House of Commons on Thursday, June 18, 1987. (*See Minutes of Proceedings and Evidence, Monday, June 22, 1987, Issue No. 70*).

The Committee resumed consideration of the draft Report to the House.

At 12:24 o'clock p.m., the Committee adjourned to the call of the Chair.

TUESDAY, NOVEMBER 3, 1987
(191)

The Standing Committee on Finance and Economic Affairs met *in camera* at 3:48 o'clock p.m. this day, in Room 269, West Block, the Chairman, Don Blenkarn, presiding.

Members of the Committee present: Bill Attewell, Don Blenkarn, Simon de Jong, Murray Dorin, Raymond Garneau, Robert E.J. Layton, W. Paul McCrossan and Norman Warner.

Acting Member present: Geoff Wilson for Mary Collins.

In attendance: From the Committee's Research Staff: C. David Weyman, Research Director (Tax Reform); H. Bert Waslander, Research Director; Geoff Fisher, Anthony Knill and Edwin Kroft, Research Officers. *From the Research Branch of the Library of Parliament:* Terrence J. Thomas, Research Officer.

In accordance with its mandate under Standing Order 96(2), the Committee resumed consideration of the White Paper and other related documents on Tax Reform tabled in the House of Commons on Thursday, June 18, 1987. (*See Minutes of Proceedings and Evidence, Monday, June 22, 1987, Issue No. 70*).

The Committee resumed consideration of the draft Report to the House.

At 6:05 o'clock p.m., the Committee adjourned to the call of the Chair.

TUESDAY, NOVEMBER 3, 1987
(192)

The Standing Committee on Finance and Economic Affairs met *in camera* at 8:23 o'clock p.m. this day, in Room 269, West Block, the Chairman, Don Blenkarn, presiding.

Members of the Committee present: Bill Attewell, Don Blenkarn, Simon de Jong, Murray Dorin, Raymond Garneau, Robert E.J. Layton, W. Paul McCrossan and Norman Warner.

Acting Member present: Geoff Wilson for Mary Collins.

In attendance: From the Committee's Research Staff: C. David Weyman, Research Director (Tax Reform); H. Bert Waslander, Research Director; Geoff Fisher and Anthony Knill, Research Officers. *From the Research Branch of the Library of Parliament:* Terrence J. Thomas, Research Officer.

In accordance with its mandate under Standing Order 96(2), the Committee resumed consideration of the White Paper and other related documents on Tax Reform tabled in the House of Commons on Thursday, June 18, 1987. (*See Minutes of Proceedings and Evidence, Monday, June 22, 1987, Issue No. 70*).

The Committee resumed consideration of the draft Report to the House.

Bill Attewell moved, - That the Draft Report as amended, be adopted as the Committee's Eleventh Report to the House and that the Chairman be authorized to make such typographical and editorial changes as may be necessary without changing the substance of the Draft Report and that the Chairman be instructed to present the said Report to the House.

And the question being put on the motion, it was agreed to, on division.

It was agreed, - That, the Committee authorize the printing of the dissenting opinions of Raymond Garneau, M.P., from the Liberal Party and of Michael Cassidy, M.P. and Simon de Jong, M.P., from the New Democratic Party, in Appendix to the Committee's Eleventh Report provided they be in the hands of the Clerk of this Committee no later than Thursday, November 5 1987, at 9:00 o'clock a.m..

At 10:50 o'clock p.m., the Committee adjourned to the call of the Chair.

Marie Carrière
Clerk of the Committee

HOUSE OF COMMONS

Issue No. 126

Wednesday, November 18, 1987

Chairman: Don Blenkarn

*Minutes of Proceedings and Evidence of the
Standing Committee on*

Finance and Economic Affairs

RESPECTING:

Bill C-64, An Act to amend the Income Tax Act, a related Act, the Canada Pension Plan and the Unemployment Insurance Act, 1971

WITNESSES:

(See back cover)

CHAMBRE DES COMMUNES

Fascicule n° 126

Le mercredi 18 novembre 1987

Président: Don Blenkarn

*Procès-verbaux et témoignages du Comité
permanent des*

Finances et des affaires économiques

CONCERNANT:

Projet de loi C-64, Loi modifiant la Loi de l'impôt sur le revenu et la législation connexe ainsi que le Régime de pensions du Canada et la Loi de 1971 sur l'assurance-chômage

TÉMOINS:

(Voir à l'endos)



Second Session of the Thirty-third Parliament,
1986-87

Deuxième session de la trente-troisième législature,
1986-1987

STANDING COMMITTEE ON FINANCE AND
ECONOMIC AFFAIRS

Chairman: Don Blenkarn

Vice-Chairman: Robert E.J. Layton

Members

Bill Attewell
Suzanne Blais-Grenier
Michael Cassidy
Mary Collins
Simon de Jong
Murray Dorin
Raymond Garneau
Paul McCrossan
George Minaker
Aideen Nicholson
Norman Warner

(Quorum 7)

Marie Carrière

Clerk of the Committee

COMITÉ PERMANENT DES FINANCES ET DES
AFFAIRES ÉCONOMIQUES

Président: Don Blenkarn

Vice-président: Robert E.J. Layton

Membres

Bill Attewell
Suzanne Blais-Grenier
Michael Cassidy
Mary Collins
Simon de Jong
Murray Dorin
Raymond Garneau
Paul McCrossan
George Minaker
Aideen Nicholson
Norman Warner

(Quorum 7)

Le greffier du Comité

Marie Carrière

MINUTES OF PROCEEDINGS

WEDNESDAY, NOVEMBER 18, 1987
(193)

[Text]

The Standing Committee on Finance and Economic Affairs met at 3:34 o'clock p.m. this day, in Room 269, West Block, the Chairman, Don Blenkarn, presiding.

Members of the Committee present: Bill Attewell, Don Blenkarn, Mary Collins, Murray Dorin, Raymond Garneau, Robert Layton, Paul W. McCrossan, George Minaker, and Norman Warner.

In attendance: From the Committee's Research Staff: H. Bert Waslander, Research Director. *From the Research Branch of the Library of Parliament:* Terrence J. Thomas, Research Officer.

Witnesses: From the Tax Policy and Legislation Branch of the Department of Finance: Len Farber, Director, Tax Policy and Legislation; Gerry Lalonde, Senior Tax Policy Officer; Dan MacIntosh, Senior Tax Policy Officer; Carol Muirhead, Senior Tax Policy Officer; Wally Conway, Senior Tax Policy Officer.

The Committee resumed consideration of its Order of Reference dated Tuesday, June 30, 1987 in relation to Bill C-64, an Act to amend the Income Tax Act, a related Act, the Canada Pension Plan and the Unemployment Insurance Act, 1971. (*See Minutes of Proceedings and Evidence, Wednesday, August 12, 1987, Issue No. 78.*)

The Committee resumed consideration of Clause 1.

The witnesses answered questions.

At 5:08 o'clock p.m., the Committee adjourned to the call of the Chair.

Marie Carrière
Clerk of the Committee

PROCÈS-VERBAL

LE MERCREDI 18 NOVEMBRE 1987
(193)

[Traduction]

Le Comité permanent des finances et des affaires économiques se réunit, aujourd'hui à 15 h 34, dans la pièce 269 de l'Édifice de l'Ouest, sous la présidence de Don Blenkarn. (*président*).

Membres du Comité présents: Bill Attewell, Don Blenkarn, Mary Collins, Murray Dorin, Raymond Garneau, Robert Layton, Paul W. McCrossan, George Minaker et Norman Warner.

Aussi présents: Du personnel de recherche du Comité: H. Bert Waslander, directeur de la recherche. *Du Service de recherche de la Bibliothèque du Parlement:* Terrence J. Thomas, attaché de recherche.

Témoins: De la Direction de la politique et de la législation de l'impôt du ministère des Finances: Len Farber, directeur, Politique et législation de l'impôt; Gerry Lalonde, agent supérieur, Politique de l'impôt; Dan MacIntosh, agent supérieur, Politique de l'impôt; Carol Muirhead, agent supérieur, Politique de l'impôt; Wally Conway, agent supérieur, Politique de l'impôt.

Le Comité examine de nouveau son ordre de renvoi du mardi 30 juin 1987 relatif au projet de loi C-64, Loi modifiant la Loi de l'impôt sur le revenu et la législation connexe, ainsi que le Régime de pensions du Canada et la Loi de 1971 sur l'assurance-chômage. (*Voir Procès-verbaux et témoignages du mercredi 12 août 1987, fascicule n° 78.*)

Le Comité continue d'examiner l'article 1.

Les témoins répondent aux questions.

À 17 h 08, le Comité s'ajourne jusqu'à nouvelle convocation du président.

Le greffier du Comité
Marie Carrière

EVIDENCE

[Recorded by Electronic Apparatus]

[Texte]

Wednesday, November 18, 1987

• 1534

The Chairman: Order, please. We are resuming consideration of Bill C-64, an act to amend the Income Tax Act. Our witnesses are Len Farber, Wally Conway, and Dan MacIntosh, all from the Tax Policy and Legislation Branch. We apparently have Harold White in the room, and Mark Jewett as well. So we have all sorts of help.

As I recall, we were last dealing on this matter in early August and we have not done anything since. My notes indicate that we were going at certain clauses in a summary way. It seems to me that we got down to the item "Forgiveness of employee loans".

• 1535

Mr. Farber, we have had some correspondence on this bill and other things, but I guess we would best just follow the original program you people had in mind. Is that the best way of handling it?

Mr. Len Farber (Director, Tax Policy and Legislation Branch, Department of Finance): Mr. Chairman, we submitted to you a week or two ago a batch of second reading amendments, which we hope the committee would move here today. Some of these second reading amendments deal with items that have already been dealt with.

Mr. Warner: I have copies of these amendments here. I wonder if you would like to deal with them all together and pass them—

The Chairman: I think the way to handle it, Mr. Farber, is to touch the amendments as we explain the bill. When you come to a part of the bill where there is an amendment, you could draw our attention to the amendment and explain the amendment at the same time, and then we can, bit by bit, get through the bill. Then we can take a look at what you have in mind and how that solves the problems and get on to clause-by-clause.

Mr. Farber: Some go back to clause 1.

Mr. Warner: Yes. So they cover some areas we have already covered.

The Chairman: I guess they do. In your explanation you were bouncing around all over the place. You started off in attribution rules, for example, which are in clause 56 and the consequential subclauses 74.(1) and (4). Did

TÉMOIGNAGES

[Enregistrement électronique]

[Traduction]

Le mercredi 18 novembre 1987

Le président: La séance est ouverte. Nous reprenons l'examen du projet de loi C-64, Loi modifiant la Loi d'impôt sur le revenu. Nos témoins sont Len Farber, Wally Conway et Dan MacIntosh, tous de la Direction de la politique et de la législation de l'impôt. Il appert aussi que nous avons avec nous, dans la salle, Harold White et Mark Jewett. Il y a donc tout plein de monde pour nous aider.

Si ma mémoire est bonne, nous avons abordé ce sujet, la dernière fois, au début du mois d'août et n'en avons pas parlé depuis. D'après mes notes, nous avons examiné sommairement quelques articles. Il me semble que nous en étions à l'article sur la valeur de l'avantage en cas de remise de dette à l'employé.

Monsieur Farber, il y a eu une correspondance à propos de ce projet de loi et d'autres sujets, mais je crois qu'il vaudrait mieux de suivre l'ordre du jour que vous nous avez proposé, n'est-ce pas?

M. Len Farber (directeur, Direction de la politique et de la législation de l'impôt, ministère des Finances): Monsieur le président, il y a une ou deux semaines, nous, vous avons fait parvenir un ensemble d'amendements en deuxième lecture dont nous espérons que le comité les proposerait ici même aujourd'hui. Certaines de ces amendements portent sur des questions qui ont été réglées.

M. Warner: J'ai des exemplaires de ces amendements ici. Voulez-vous les prendre en masse et les adopter. . .

Le président: Monsieur Farber, je crois que le mieux, c'est de débattre chaque amendements au fur et à mesure, des diverses explications concernant le projet de loi. Lorsque vous arriverez à une partie du projet de loi visé par un amendement, vous pourrez attirer notre attention sur l'amendement proposé tout en nous l'expliquant, ce qui nous permettra d'avancer notre travail petit à petit. Nous saurons alors quelle est votre idée et comment cela peut aider à résoudre les problèmes, pour ensuite passer à l'examen article par article.

M. Farber: Certaines de nos propositions modifieraient l'article 1.

M. Warner: Oui. Elles visent donc certains sujets que nous avons déjà étudiés.

Le président: Je le crois bien. Pendant vos explications, vous sautiez un peu du coq à l'âne. Vous avez commencé par les règles d'attribution, par exemple, qui se trouvent à l'article 56 et aux paragraphes 74.(1) et (4) qui en

[Texte]

you get to any place where we had amendment clauses before? We were not going through the bill in order; we were going through the bill by topic.

Mr. Farber: That is right. We thought that for the ease of the committee we would deal with it on a topic-by-topic basis.

The Chairman: Yes, I think that is the way to handle it.

Mr. Farber: I suppose we can handle it this afternoon on that basis as well.

The Chairman: I think that is the best way of doing it. We seemed to get a better understanding as we did it that way before. So why do we not finish the way we were going at it and why do we not discuss the amendments as we come to them in the topics as we now come to them?

Mr. Farber: Okay.

Mr. Warner: Would you like to move now, Mr. Chairman?

The Chairman: The amendments?

Mr. Warner: Move them all at this stage, or move them as you read it clause by clause.

The Chairman: No, we will move them when we go into clause-by-clause. We will discuss them, but we will not move them at this point. So can we go into the forgiveness of employee loans? I believe that is in clause 6.

Mr. Farber: Yes, but before that I just want to alert you that we will have to go back and deal with a number of the second reading amendments we have dealt with before. But we can deal with those at the end.

The Chairman: All right. Let us do that at the end.

Mr. Farber: Forgiveness of employee loans is an amendment that clarifies the value of the benefit on the forgiveness of employee loans that are to be included in income. The principal clause here is actually clause 1.

The Chairman: The principal clause is clause 1?

Mr. Farber: The main aspect here is that under the current income tax law, where a loan is forgiven and it is a loan that has repayment terms over time and it is forgiven then only the value of that loan is forgiven at present. What this amendment purports to do is to forgive the actual amount that is forgiven.

The Chairman: What other amount would you forgive?

Mr. Farber: When you have a loan of say \$10,000 a year paid over time at a 10% interest rate, what is the value discounted in present-value terms to today if you forgive the \$10,000? It is something less than the \$10,000.

[Traduction]

découlent. Avez-vous touché à un des articles où l'on avait prévu des amendements? Nous n'examinions pas ce projet de loi dans l'ordre; nous l'étudions sujet par sujet.

M. Farber: C'est vrai. Nous avons pensé que ce serait plus facile pour le comité si nous l'abordions sujet par sujet.

Le président: Oui, je crois que c'est la meilleure façon.

M. Farber: Je crois bien que nous pouvons nous y attaquer aussi de cette façon cet après-midi.

Le président: Je crois que c'est la meilleure façon de faire les choses. Il me semble que cette méthode permettait une meilleure compréhension ça la dernière fois. Pourquoi ne pas faire de même et débattre les amendements au fur et à mesure que nous aborderons les questions qui en font l'objet?

M. Farber: Parfait.

M. Warner: Vous voulez les proposer immédiatement, monsieur le président?

Le président: Les amendements?

M. Warner: Proposer tous les amendements maintenant ou lors de l'examen article par article.

Le président: Non, nous les proposerons lors de l'examen article par article. Nous les débattrons, mais nous ne les proposerons pas encore. Donc, peut-on passer à la valeur de l'avantage en cas de remise de dette à l'employé? C'est l'article 6, il me semble.

M. Farber: Oui, mais avant de le faire, je tiens à vous signaler que nous devons faire un petit retour en arrière pour régler un certain nombre d'amendements en deuxième lecture dont nous avons déjà traité auparavant. Mais nous pourrions en parler à la fin.

Le président: Bon. Faisons cela à la toute fin.

M. Farber: L'amendement concernant la valeur de l'avantage en cas de remise de dette sert tout simplement à préciser quel montant de la remise devrait être ajoutés au revenu de l'employé. L'article principal est en fait l'article 1.

Le président: L'article principal est l'article premier?

M. Farber: Le principal, ici, c'est que sous le régime de la loi actuelle de l'impôt sur le revenu, lorsqu'il s'agit d'une dette remboursable par termes et qu'elle est remise, alors on tient compte de la valeur de la remise au moment considéré. Le but de l'amendement est d'inclure le montant effectivement remis.

Le président: Quelle autre dette pourrait faire l'objet d'une remise?

M. Farber: Supposons que vous prêtiez 10,000\$ remboursable pendant une certaine période à un taux de 10 p. 100, quelle est la valeur escomptée à cette date d'en termes de valeur actuelle si la dette de 10,000\$ est remise? C'est un peu moins de 10,000\$.

[Text]

The Chairman: If you have a loan of \$10,000 at a fixed rate paid over a period of time then it is worth less than \$10,000.

Mr. Farber: Exactly, and when that \$10,000 is forgiven we want the full \$10,000 to be the amount that is forgiven—

• 1540

The Chairman: You mean you have been allowing people to get away with that kind of a ruse?

Mr. Farber: We have not been allowing anything, Mr. Chairman. There was a court case on that, which determined that it was the discounted value of that loan that is the real amount that is forgiven.

The Chairman: So you had an employee loan where the employee got 100 cents on the dollar, proceeded to negotiate a 2% rate, then the company proceeded to forgive the loan and they went to court and said the loan is really only worth 20 cents on the dollar and therefore you only have to pay tax on 20 cents. Is that what happened?

Mr. Farber: Yes. This will correct that anomaly so that the full amount of the loan will be forgiven and included in income.

The Chairman: I see.

Mr. Farber: There is another amendment, Mr. Chairman—

The Chairman: Which one is that one? Is it subclause 1.(6)?

Mr. Farber: It is subclause 1.(2). Also, Mr. Chairman, a little later on clause 5 deals with exactly the same type of mechanism with regard to shareholder loans. It is exactly the same type of procedure.

The Chairman: One is employees, one is shareholders.

Mr. Farber: Exactly.

The Chairman: Okay. Anybody have any problems with that? Okay.

Mr. Farber: Moving on to clause 2, employee stock options. . .

The Chairman: No, I thought home relocation loans goes next, does it not?

Mr. Farber: I am sorry, I was going through a. . . You are right. I was looking at the bill, Mr. Chairman, I am sorry. Home relocation loans is subclause 38.(2).

The Chairman: Yes.

Mr. Gerry Lalonde (Senior Official, Business and Property, Legislation Division, Department of Finance): Amendment was made to the Income Tax Act in 1985 to allow an exemption in respect of the benefit arising from a no-interest home relocation loan to the extent of a no-

[Translation]

Le président: S'il y a un prêt de 10,000\$ à un taux d'intérêt fixe et remboursable pendant une certaine période, sa valeur est alors inférieure à 10,000\$.

M. Farber: Exactement et quand cette dette de 10,000\$ est remise, nous voulons inclure le montant intégral de la remise de 10,000\$. . .

Le président: Vous voulez dire que vous avez permis aux gens de s'en tirer grâce à cette entourloupette?

M. Farber: Nous n'avons rien permis à personne, monsieur le président. Les tribunaux ont statué que c'était la valeur escomptée du prêt qui constituait la véritable valeur de la remise.

Le président: Donc supposons qu'on consente un prêt à l'employé qui en reçoit le montant intégral, on négocie un taux de 2 p. 100, la compagnie décide ensuite de consentir une remise de cette dette, et prétend en justice que ce prêt ne vaut, en réalité, que 20 p. 100 de sa valeur nominale et que l'employé n'a donc à payer ses impôts que sur ces 20c. C'est bien cela qui est arrivé?

M. Farber: Oui. Ceci servira à corriger cette anomalie de façon que l'intégralité de la remise soit ajoutée au revenu.

Le président: Je vois.

M. Farber: Il y a un autre amendement, monsieur le président. . .

Le président: Lequel? Le paragraphe 1.(6)?

M. Farber: Le paragraphe 1.(2). Aussi, monsieur le président, un peu plus loin, à l'article 5, où il est question du même mécanisme pour ce qui concerne des prêts consentis aux actionnaires. Exactement le même genre de procédure.

Le président: L'une pour les employés, l'autre pour les actionnaires.

M. Farber: Tout à fait.

Le président: Bon. Pas d'objection? Bon.

M. Farber: Passant à l'article 2, régime d'option d'achat d'actions pour employés. . .

Le président: Non, je croyais que nous devions maintenant passer au prêt à la réinstallation, non?

M. Farber: Désolé, je lisais. . . Vous avez raison. Je consultais le projet de loi, monsieur le président, j'en suis désolé. Le prêt à la réinstallation est traité au paragraphe (2) de l'article 38.

Le président: Oui.

M. Gerry Lalonde (agent de politique fiscale, Entreprises, biens et particuliers, Division de la législation, ministère des Finances): On a modifié la Loi de l'impôt sur le revenu en 1985 pour exempter l'avantage financier que représente le prêt sans intérêt à la

[Texte]

interest loan of \$25,000. There was a technical problem that came to our attention with that provision where the employer would pay interest directly to a financial institution in respect of the employee's loan. So as far as the employee was concerned, he had an interest-free home relocation loan. As far as the employer was concerned, it was the same thing to him except he did not have to use his current cash; he could go to a financial institution and say make a loan to this fellow and I will pay the interest to you directly.

The mechanics of the provision required that the home relocation loan benefit be reduced by any interest paid on the loan. The amendment makes it clear that you do not have to take into account interest paid by the employer directly to the financial institution, so that the employee will still get his full \$25,000 interest-free benefit.

The Chairman: Well, that is a little different from what normally would happen. When an employer lends money to an employee, I suppose the employer takes security against the house as a mortgage, does he not?

Mr. Lalonde: In this case, the bank would take security against the house. The bank would be lending the principal directly to the employee. It is just that instead of having the employee pay interest to the bank, the employer would make an arrangement with the bank to pay the interest directly to the bank.

The Chairman: But that changes the legal relationship between the employee and his employer. All of a sudden, the employee owes a mortgage to a trust company, for example, and if the employer decides to fire the employee, the employee is stuck with this loan to the trust company and he cannot plead the equities between himself and the employer in reduction of the loan.

Mr. Lalonde: The provision was designed to allow an employer to make an interest-free loan to an employee for a term of five years.

• 1545

The Chairman: That is not designed to allow a trust company to lend money to an employee and the employer pick up the interest rate.

Mr. Lalonde: The way to look at it would be to say that it was not designed to allow an employer or anybody to make the principal payment to the employee without any strings attached. So the fact that the employee would still be liable to pay back the principal is really a red herring. The issue at stake here is whether an employer can make a loan to an employee directly by using his own funds and lending it to the employee over a five-year basis interest-free, or whether he can make an arrangement with a bank to have a bank do the same thing. The employer would pay the interest charges on that loan for a period of five

[Traduction]

réinstallation de 25,000\$ ou moins. Nous nous sommes aperçus qu'il y avait un problème technique dans la mesure où l'employeur versait l'intérêt directement à un établissement financier sur ce prêt consenti à l'employé. L'employé jouissait donc d'un prêt sans intérêt à la réinstallation. Pour l'employeur, c'était du pareil au même sauf qu'il n'avait pas besoin de puiser dans sa propre caisse: il n'avait qu'à se rendre à l'établissement financier en question, demander que soit consenti un prêt à cet employé en précisant que lui, l'employeur, paierait directement les intérêts à cet établissement.

Cette disposition prévoit que l'avantage représenté par le prêt à la réinstallation devait être diminué de tout montant d'intérêt remboursé sur ce prêt. L'amendement précise très clairement qu'il n'est point besoin de tenir compte des intérêts payés par l'employeur directement à l'établissement financier et de cette façon, l'employé jouit quand même pleinement de cet avantage que représente pour lui le montant de 25,000\$ prêtés sans intérêt.

Le président: C'est un peu différent de la situation réelle, quand même. Lorsqu'un employeur prête des fonds à un employé, j'imagine que l'employeur prend en garantie une hypothèque sur la maison, n'est-ce pas?

M. Lalonde: En l'occurrence, c'est la banque qui détient cette garantie. La banque prête le principal directement à l'employé. Seulement, au lieu que l'employé paie les intérêts à la banque, l'employeur s'entend avec celle-ci pour lui payer directement les intérêts.

Le président: Voilà cependant qui modifie les rapports juridiques existant entre l'employé et l'employeur. Tout d'un coup, l'employé doit rembourser une certaine hypothèque à une société de fiducie, par exemple, et si l'employeur devait décider de mettre à pied cet employé, ce dernier est alors pris avec cette dette envers la société de fiducie et il ne peut pas plaider la situation qui existe entre lui-même et son employeur pour diminuer la dette.

M. Lalonde: La disposition devait permettre à l'employeur de consentir un prêt sans intérêt à un employé pour une période de cinq ans.

Le président: L'intention n'est pas d'autoriser une société de fiducie à prêter de l'argent à un employé et l'employeur à payer les intérêts.

M. Lalonde: Il faudrait plutôt comprendre la chose ainsi: l'intention n'était de permettre ni à un employeur ni à qui que ce soit de prêter le principal à l'employé sans que ce soit assorti d'aucune condition. Le fait que l'employé ait à rembourser le principal détourne l'attention. Ce qui est vraiment en jeu ici, c'est de savoir si un employeur peut octroyer un prêt à un employé à partir de ses propres fonds, sans intérêt et avec un terme de cinq ans, ou s'il peut prendre des dispositions avec une banque pour que celle-ci assume le prêt dans les mêmes conditions, l'employeur lui versant ainsi les intérêts sur le

[Text]

years. That would be done in a situation where no taxable benefit is imputed to the employee.

If the employer made the loan directly and did not charge any interest the rule worked. However, the employer could say that he did not want to make the loan directly because he did not have the excess cash available. He could go to the bank and have the bank make a \$25,000 loan to you. He would pay the interest on your behalf for a period of five years.

The Chairman: What you want to do is widen this tax hole. Under the present rules, only employers who happen to be rich enough to put up \$25,000 can take advantage of it. What you want to do is let any old employer take advantage of it and thus benefit employees.

Mr. Lalonde: Whether it is a tax hole is a fundamental policy question, which perhaps should be more properly addressed to the Minister. It was a deliberate tax incentive that was put in to encourage and facilitate the relocation of Canadian employees in the Canadian work force. In the context of widening access to the exception—in fact, an employer if he did not have \$25,000 of cash on hand could just as easily go to the bank, borrow \$25,000—

The Chairman: If he had borrowing capacity he could, but without borrowing capacity he can borrow against the employee's new home.

Mr. Lalonde: I am not sure I follow you there. He is not borrowing against the employee's new home.

The Chairman: Yes, he is.

Mr. Lalonde: He is facilitating a loan that the employee is making from the bank.

The Chairman: He gets the employee to borrow the money and says okay, old chappy, I will pay the interest on the first \$25,000 of that mortgage for you.

Mr. Lalonde: That is right. But the employer gets no interest—

The Chairman: He does not have to have any bank credit at all. He just pays the monthly interest requirement on \$25,000 of the loan, which was raised by the employee on the employee's own home.

Mr. Lalonde: I guess at some point you might be dealing with conjecture, although we would assume that the bank would have enough assurance that the employer was going to be able to pay interest on that loan. In any event, going down that sort of avenue is really a red herring. This is a technical provision designed to ensure that the rules work as they were originally intended to work when they were introduced in 1985.

The Chairman: All I can say is that you are nicely widening the loophole. However, it is up to everybody

[Translation]

même terme. Dans un cas pareil, l'employé bénéficie d'un avantage qui n'est pas imposable.

La règle s'appliquait si l'employeur accordait le prêt directement et sans intérêt mais dans le cas où il ne disposait pas des fonds nécessaires, il pouvait passer par une banque qui se substituait à lui pour vous consentir un prêt de 25,000\$. L'employeur lui versant les intérêts à votre place, sur une période de cinq ans.

Le président: Ce que vous voulez faire là, c'est de permettre à un plus grand nombre de gens de bénéficier de cette échappatoire. Avec les règles actuelles, seuls les employeurs qui ont assez de moyens pour déboursier 25,000\$ peuvent en profiter et ce que vous voulez, c'est que la possibilité soit donnée à tout employeur de faire ainsi bénéficier ses employés.

M. Lalonde: Qualifier cette mesure d'échappatoire dépend de votre orientation politique et c'est une question qu'il vaudrait peut-être mieux adresser au ministre. C'était une mesure d'incitation fiscale délibérément mise en place pour faciliter la réimplantation des employés canadiens dans la recherche du travail. Pour permettre à un plus grand nombre de personnes d'en bénéficier—car l'employeur qui n'avait pas 25,000\$ en caisse avait plus de difficulté, puisqu'il devait s'adresser à une banque pour emprunter cet argent. . .

Le président: Il pouvait s'il avait une capacité d'emprunt, et sinon, il peut emprunter en prenant le nouveau logement de son employé comme cautionnement.

M. Lalonde: Je ne vous suis pas bien: il ne contracte pas un emprunt avec le nouveau logement de l'employé comme cautionnement.

Le président: Si, c'est bien ce qu'il fait.

M. Lalonde: Il rend plus facile à l'employé de contracter un emprunt auprès de la banque.

Le président: C'est l'employé qui emprunte, mais avec l'aide de l'employeur qui paie l'intérêt, à sa place, sur les premiers 25,000\$ de l'hypothèque.

M. Lalonde: C'est exact, mais l'employeur n'obtient pas d'intérêt. . .

Le président: Il n'a pas du tout besoin de crédit bancaire. Il paie les intérêts mensuels dus sur les 25,000\$ de l'emprunt obtenu par l'employé sur sa propre maison.

M. Lalonde: Il y a là une part de conjecture, et il est vrai que la banque peut être assurée que l'employeur va payer les intérêts sur cet emprunt. Mais quoi qu'il en soit, nous nous égarons en suivant cette piste. C'est une disposition technique visant à assurer le bon fonctionnement des règles telles qu'elles étaient conçues quand elles ont été mises en place en 1985.

Le président: Tout ce que je puis vous dire, c'est que vous êtes bel et bien en train d'élargir l'échappatoire, mais

[Texte]

else. Does anybody else have any concerns about that? I have to say that I am not very happy with that. As a matter of fact, I do not know why that whole clause was not wiped out in the tax reform.

Mr. Farber: The next clause, Mr. Chairman, is income interest in a trust. The principal clause there is clause 37, which deals with definitions of income interest and capital interest in a trust, which are amended to provide that only certain family trusts have income interests. I will ask Carol Muirhead to deal with that issue.

Ms Carol Muirhead (Senior Official, Legislation Division, Tax Policy and Legislation Branch, Department of Finance): Subclauses 37.(1) and (2) give effect to the Minister's announcement in early February 1987 to deal with the type of trust transaction that the B.C. Sky Train proposal represented.

• 1550

The Chairman: So this is the B.C. Sky Train amendment, is it?

Ms Muirhead: Yes.

The Chairman: Okay. Are you objecting to this, Mary?

Mrs. Collins: No, I am not. I have quite publicly indicated my displeasure with what happened in that instance.

The Chairman: Okay.

Mrs. Collins: I have no problem with it.

The Chairman: If Mary approves this one, it is okay. Can we go on to the next one? Individual surtax.

Mr. Farber: The individual surtax principal clauses there, Mr. Chairman, are clause 43 and clause 56. Clause 43 merely includes a reference to the surtax so that taxpayers may use the tax tables in computing their liability for 1986 and subsequent years. Clause 56 extends the application of the surtax to 1987 and subsequent years... of those administrative provisions relating to the surtax.

The Chairman: This is a pretty technical thing. Why would you have any problem with using the tax table? Is the tax table not accurate?

Mr. Farber: We have no problem with it at all, Mr. Chairman. This is merely adding the reference to allow an individual to use the tax tables. We needed the reference to Part II.1, which was not included.

The Chairman: Technical, okay.

Mr. Farber: Very technical.

[Traduction]

je ne suis pas le seul à avoir voix au chapitre. Y en a-t-il d'autres qui ont des objections? J'avoue que cette mesure est loin de me satisfaire et je ne comprends pas, à vrai dire, pourquoi toute la clause n'a pas été supprimée dans la réforme fiscale.

M. Farber: La disposition suivante, monsieur le président, porte sur la participation au revenu d'une fiducie. Il s'agit, pour l'essentiel, de l'article 37 qui porte sur les définitions de la participation au revenu et la participation au capital d'une fiducie, définitions qui sont amendées afin que seules certaines fiducies familiales aient une participation au revenu. Je vais demander à Carol Muirhead de vous donner quelques explications là-dessus.

Mme Carol Muirhead (agent de politique fiscale, Direction de la politique et de la législation de l'impôt, ministère des Finances): Les paragraphes 37.(1) et (2) correspondent à la communication faite par le ministre au début de février 1987 et portant sur la catégorie de transaction de fiducie que constituait la proposition *Sky Train* en Colombie-Britannique.

Le président: C'est donc l'amendement du *Sky Train* de Colombie-Britannique, n'est-ce pas?

Mme Muirhead: C'est bien cela.

Le président: Parfait. Vous y voyez une objection, Mary?

Mme Collins: Non, pas du tout. J'ai proclamé haut et fort ma contrariété devant ce qui s'est passé en l'occurrence.

Le président: Parfait.

Mme Collins: Je n'y vois pas d'objection.

Le président: Si Mary approuve ce paragraphe, c'est parfait. Pouvons-nous passer au suivant? La surtaxe individuelle.

M. Farber: Ce sont les articles 43 et 56 qui traitent de la surtaxe individuelle, monsieur le président. L'article 43 ne fait que mentionner la surtaxe, de sorte que les contribuables peuvent utiliser les tables d'impôt pour calculer ce qu'ils doivent pour 1986 et pour les années suivantes. L'article 56 étend l'application de la surtaxe à 1987 et aux années suivantes... des dispositions administratives relatives à la surtaxe.

Le président: C'est donc une question assez technique. Pourquoi auriez-vous des difficultés à utiliser les tableaux d'imposition? Manqueraient-ils d'exactitude?

M. Farber: Nous n'avons aucune difficulté du tout, monsieur le président. On en a simplement fait mention pour permettre à un particulier d'utiliser ces tables. Il nous fallait la référence à la Partie II.1 qui n'était pas incluse.

Le président: Bon, c'est une question technique.

M. Farber: Très technique.

[Text]

The Chairman: What about the other one, clause 56—is it the same thing?

Mr. Farber: Basically the same thing. It just extends the administrative provisions applicable to the surtax.

The Chairman: Okay. Interest on installments, clause 54.

Mr. Farber: Clause 54, which is the offset interest clause, provides for an interest offset method in calculating interest payable on later deficient installments. What that basically does, Mr. Chairman, is allow you to make up for lost time in the context of installment payments. If you have underpaid on a particular installment, you can overpay the following one so that at the end of the particular fiscal year, you can aggregate your underpayments and overpayments, and if you come out equal this amendment will allow you to offset those underpayments against the overpayments.

The Chairman: Is that what it says?

Mr. McCrossan: This is for someone who is self-employed or someone whose principal source of income is interest income, because basically there is no penalty if there is a small amount of outside income where you are having payroll deductions, is that...?

Mr. Farber: Or for corporations. It is virtually all tax installments.

Mr. McCrossan: Including sales tax?

Mr. Farber: No, this is just an income tax bill. We are not dealing with sales tax here. There is a second reading amendment here, Mr. Chairman, subclause 54.(1).

The Chairman: What page is that on in your amendments?

Mr. Farber: Page 106.

The Chairman: Okay, this is just an averaging interest, then, is it? That is all you are talking about.

Mr. Farber: That is right.

The Chairman: Well, did you not do this anyway for people—overpay some installments and underpay others?

Mr. Farber: No, we did not. Dan, would you speak to that one?

Mr. Dan MacIntosh (Senior Official, Corporations and Capital Gains, Legislation Division, Department of Finance): The offset interest method was used until about a year and a half ago by Revenue Canada in computing interest on deficient tax installments.

The Chairman: Deficiencies, sure.

[Translation]

Le président: Qu'en est-il de l'autre, du paragraphe 56? S'agit-il de la même chose?

M. Farber: Oui, pour l'essentiel. L'article 56 élargit les dispositions administratives applicables à la surtaxe.

Le président: Parfait. A l'article 54 maintenant, intérêts sur les acomptes provisionnels.

M. Farber: Qui porte sur les intérêts de compensation, présente une méthode de calculer l'intérêt payable sur les derniers acomptes provisionnels en défaut. L'objectif de cet article, monsieur le président, est de vous permettre de vous remettre à jour dans le paiement des acomptes provisionnels. Si l'un des acomptes que vous avez versés est insuffisant, vous pouvez verser la différence en supplément de l'acompte suivant de sorte qu'à la fin de l'exercice fiscal, vous puissiez additionner les surplus et les déficits de paiement et si le total est correct, cet amendement vous autorise à utiliser les surplus pour redresser votre compte.

Le président: Est-ce que cela veut dire?

M. McCrossan: Cela s'applique à un travailleur indépendant ou à une personne qui vit de ses intérêts, car il n'y a pas de pénalité, lorsque vous avez des retenues à la source, si vous avez une petite somme provenant d'un revenu extérieur, est-ce que...?

M. Farber: Ou pour les sociétés, cela s'applique pratiquement à tous les acomptes provisionnels.

M. McCrossan: Y compris la taxe de vente?

M. Farber: Non, la loi de s'applique qu'à l'impôt sur le revenu, nous n'y traitons pas de la taxe de vente. Il y a ici un amendement de seconde lecture monsieur le président, à savoir le paragraphe 54.(1).

Le président: Sur quelle page de vos amendements se trouve-t-il?

M. Farber: A la page 106.

Le président: Il s'agit donc simplement d'un étalement des intérêts, n'est-ce pas, c'est tout ce dont il est question ici.

M. Farber: C'est exact.

Le président: N'était-ce pas déjà chose acquise? Est-ce qu'il n'était pas possible de payer un supplément sur certains acomptes provisionnels et d'en payer d'autant moins sur un ou plusieurs autres acomptes?

M. Farber: Non, cette possibilité n'existait pas. Dan, est-ce que vous voulez bien expliquer cette question?

M. Dan MacIntosh (agent de politique fiscale, Division de l'analyse de l'impôt sur les sociétés et les ressources, Direction de la politique et de la législation de l'impôt, ministère des Finances): La méthode de compensation de l'intérêt était utilisée par Revenue Canada jusqu'il y a environ un an et demi, pour calculer l'intérêt sur les acomptes provisionnels en défaut.

Le président: Des insuffisances de paiement, vous voulez dire.

[Texte]

Mr. MacIntosh: However, about a year and a half ago they discontinued that practice because they felt there was not support for it in the Income Tax Act. Therefore, they should not be calculating interest that way. So what we have done here is just reinstate what formerly was the administrative practice and what is probably the fair way of going about determining installment payments.

• 1555

The Chairman: Of course. In other words, some jerk in Revenue Canada decided to read the act.

Mr. Farber: No comment.

Mr. MacIntosh: I am not sure who it was in Revenue Canada.

The Chairman: You agree with the compliment, though, do you?

A witness: Not very much.

The Chairman: All right. We are going to leave IBCs completely alone, if that is all right with you.

Mr. Farber: That is fine.

The Chairman: We have learned enough about them. We are going to discuss them in complete and absolute form for the vote when Mary is away.

Mr. Farber: Mr. Chairman, do you want to defer discussion on that?

The Chairman: Yes, we are going to defer discussion on the IBCs and any amendments you have on them until that time.

Mr. Farber: We do not have second-reading amendments on it.

The Chairman: Okay. Let us go on then to investment contract accrual rules. This is clause 3 again, the third anniversary problem.

Mr. Farber: This clause defers the first year of the three-year accrual rules to 1988 rather than 1987. That was done specifically for a set of circumstances.

Mr. Lalonde: When the three-year interest accrual rules were introduced in 1981, they provided grandfathering for investments acquired before that time. That grandfathering provided in essence that the first three-year period for those investments would begin running on December 31, 1984, with the result that the first three-year period would end December 31, 1987. It is fairly unfortunate for Canada Savings Bonds purchased in 1981, which were going to become due and payable in 1988.

The Chairman: I told the Minister of Finance that at the time.

Mr. Lalonde: So you did. As I say, it is fairly unfortunate that this change will move that one year

[Traduction]

M. MacIntosh: Mais depuis, Revenu Canada a cessé d'utiliser cette méthode parce qu'elle n'était pas fondée sur la Loi de l'impôt sur le revenu. C'est pourquoi l'intérêt ne devrait pas être calculé de cette façon. Nous nous sommes donc contentés en l'occurrence, de remettre en place ce qui était une pratique administrative admise, pratique qui a également l'avantage d'être juste pour le calcul des acomptes provisionnels.

Le président: Bien entendu! Autrement dit, il y a un imbécile à Revenu Canada qui s'est décidé à lire la loi.

M. Farber: Je m'abstiendrai de tout commentaire.

M. MacIntosh: Je ne sais pas au juste de qui il s'agissait, à Revenu Canada.

Le président: Mais vous êtes bien d'accord avec le compliment que je lui décerne, n'est-ce pas?

Un témoin: Pas vraiment.

Le président: Parfait. Si vous n'y voyez pas d'inconvénient, nous allons laisser les centres bancaires internationaux de côté.

M. Farber: C'est parfait.

Le président: On en a suffisamment entendu parlé. Quand Mary sera absente, nous en discuterons en détail, pour le vote.

M. Farber: Monsieur le président, est-ce que vous voulez ajourner la discussion sur ce sujet?

Le président: Oui, sur les centres bancaires internationaux et sur tous les amendements que vous avez à ce jour à leur sujet.

M. Farber: Nous n'avons pas d'amendements de seconde lecture là-dessus.

Le président: Parfait. Passons alors aux règles du report d'impôt sur les contrats d'investissement. Il s'agit de nouveau de l'article 3, le problème du troisième anniversaire.

M. Farber: D'après cet article, la première des trois années pour le calcul des règles de report est fixée à 1988 au lieu de 1987. Cette mesure vise expressément certaines circonstances.

M. Lalonde: Lorsque les règles de report de l'intérêt sur trois ans ont été introduites en 1981, elles préservaient les droits des investissements acquis avant cette date. En raison de cette préservation des droits acquis, la première période de trois ans ne commencerait à courir qu'à compter du 31 décembre 1984 et expirerait donc le 31 décembre 1987. C'est regrettable pour les obligations d'épargne achetées en 1981, qui allaient venir à échéance en 1988.

Le président: C'est ce que j'ai dit, à l'époque, au ministre des Finances.

M. Lalonde: C'est vrai, comme je le disais, il est regrettable que cette modification ajourne cette date d'un

[Text]

forward, so the accrued interest from those pre-new system investments will in fact be taxed in the year they are actually paid, for the 1981 series of Canada Savings Bonds.

The Chairman: You say you are going to extend them until December 31, 1987? Is that the new date, or is it December 31, 1988?

Mr. Lalonde: The three-year period will begin to run December 31, 1985, with the result that it will end on December 31, 1988.

The Chairman: So these people all get an extra year's interest for free.

Mr. Lalonde: No, they do not get an extra year's interest. The interest—

The Chairman: They do not have to pay tax on it.

Mr. Lalonde: The time at which they pay tax on their accrued interest will be delayed by one year and will in fact coincide with the time when they are actually paid their interest.

The Chairman: But they still have to pay tax on the 1984 interest?

Mr. Lalonde: They will have to pay tax on all the interest accumulated on the 1981 Canada Savings Bonds. All that interest will in fact be paid in 1988, and they will pay their tax on it in 1988.

Mr. McCrossan: What is the situation for the other things that became payable on the accrual rules, such as the single-premium deferred annuities? They also have the first reporting due on the pre-1981 contract at the same time, or used to have it at the same time. Are they modified in the same way, or are you simply covering off the Canada Savings Bonds but not the other, competing investments?

Mr. Lalonde: The amendment is not specific to Canada Savings Bonds. It applies to all the investments caught up in the accrual rules. Everything will be—

Mr. McCrossan: So it would cover the SPDAs as well?

Ms Muirhead: It does not cover insurance policies, which deferred annuities fall under. But we did introduce some relieving measures in this budget for those annuity contracts.

Mr. McCrossan: I understand they were there for the ones that were annuitized.

Ms Muirhead: That is right. If they are annuitized before the end of this year, they can qualify as prescribed annuities.

Mr. McCrossan: I understand that one. The ones that are not annuitized this year. . . What you are saying is that if they saved their money with the Government of Canada they get a break, but if they saved their money in a SPDA you are leaving the rules the same. So the first reporting is

[Translation]

an, de sorte que l'intérêt accumulé sur ces investissements datant d'avant le nouveau système sera, en fait, imposé dans l'année où les obligations sont effectivement remboursées, dans le cas de la série 1981 des obligations d'épargne du Canada.

Le président: Vous disiez que vous allez prolonger cette date jusqu'au 31 décembre 1987? Est-ce la nouvelle date, ou s'agit-il du 31 décembre 1988?

M. Lalonde: La période de trois ans commencera à courir à compter du 31 décembre 1985 et expirera donc le 31 décembre 1988.

Le président: De sorte que ces gens recevront tous une année supplémentaire d'intérêt sans payer.

M. Lalonde: Non, ils ne toucheront pas les intérêts pendant une année supplémentaire. Les intérêts. . .

Le président: Ils n'ont pas à payer d'impôt là-dessus.

M. Lalonde: Le moment de payer des impôts sur l'intérêt accumulé sera retardé d'une année et coïncidera avec la date où l'intérêt sera effectivement versé.

Le président: Mais ils continueront à devoir payer des impôts sur les intérêts de 1984?

M. Lalonde: Ils devront payer des impôts sur tous les intérêts accumulés sur les obligations d'épargne du Canada de 1981. Tous ces intérêts seront payés en 1988, et c'est en 1988 qu'ils paieront leurs impôts là-dessus.

M. McCrossan: Qu'en est-il des autres effets qui sont payables d'après les règles de report, par exemple les rentes différées à prime unique? Elles aussi doivent être déclarées en même temps que le contrat datant d'avant 1981, c'est ainsi en tout cas qu'était l'usage. Sont-elles modifiées de la même façon ou est-ce que vous visez simplement les obligations d'épargne du Canada, mais non les autres placements qui leur font concurrence?

M. Lalonde: L'amendement ne s'applique pas spécifiquement aux obligations d'épargne du Canada, mais à tous les placements auxquels s'appliquent les règles de report d'impôt. Tout sera. . .

M. McCrossan: Cela s'appliquerait donc également aux rentes différées à prime unique?

Mme Muirhead: Cela ne s'applique pas aux contrats d'assurance, auxquels ressortissent les rentes différées. Mais nous avons, dans ce budget, introduit certaines mesures d'allègement pour ces contrats de rente.

M. McCrossan: Je crois savoir qu'elles existaient pour les contrats de rente.

Mme Muirhead: C'est exact. S'ils sont transformés en rentes avant la fin de cette année, ils sont considérés comme rentes prescrites.

M. McCrossan: Je comprends: ceux qui ne sont pas transformés en rentes cette année. . . Vous voulez dire que si les gens ont mis de côté de l'argent et l'ont confié au gouvernement du Canada, ils bénéficient d'un allègement fiscal, mais s'ils l'ont placé dans des rentes différées à

[Texte]

the end of 1987 for those that invest outside the Government of Canada and 1988 for those that invest inside. Is that equity?

[Traduction]

prime unique, les mêmes règles continuent à s'appliquer. La première date de déclaration est la fin de 1987 pour ceux qui ont placé leur argent ailleurs qu'auprès du gouvernement du Canada, et 1988 pour ceux qui l'ont placé en obligations d'épargne du Canada. Est-ce justice?

• 1600

Mr. Lalonde: The items covered under the insurance policy types of provisions in clause 12.(2) are not changed; they remain the same. The items that are covered—

M. Lalonde: Les articles couverts par les dispositions du genre contrat d'assurance au paragraphe 12.(2) n'ont pas changé; les articles qui sont couverts. . .

Mr. McCrossan: Staying the same means the end of 1987 if they are not annuitized.

M. McCrossan: Si la règle n'a pas changé, cela signifie la fin de 1987 s'ils ne sont pas transformés en rentes.

Mr. Lalonde: That is right. The items that are covered—

M. Lalonde: C'est exact. Les articles couverts. . .

Mr. McCrossan: Sorry, but how do you justify that other than the fact that you are treating your own customers better than you treat anybody else's customers?

M. McCrossan: Excusez-moi, mais comment justifiez-vous cela si ce n'est que vos clients bénéficient d'un traitement privilégié, à la différence des clients d'autres institutions?

Mr. Lalonde: If I could complete the thought, the items covered under section 12.11, which are all other investment contracts more in the direct nature of debt, will all benefit by this new rule including provincial bonds and including long-term—

M. Lalonde: Si vous me permettez de terminer, je préciserais que les articles couverts à l'article 12.11, à savoir tous les contrats d'investissement qui relèvent davantage de la dette, bénéficieront tous de cette nouvelle règle, dont les obligations provinciales ainsi que. . .

Mr. McCrossan: The number of compound deferred instruments is very limited.

M. McCrossan: Le nombre d'instruments différés composés est très limité.

Mr. Lalonde: A number of provincial bonds fall within the same consideration, so I think the distinction is more between the insurance type of investments and the more straightforward debt type of investment.

M. Lalonde: Un certain nombre d'obligations des provinces tombent dans la même catégorie, et la distinction porte davantage sur les investissements du genre assurance et les investissements qui relèvent davantage de la dette ordinaire.

Mr. McCrossan: And what essential difference do you see between an SPDA and a Canada Savings Bond when they both run on a compound basis?

M. McCrossan: Et quelle différence voyez-vous, pour l'essentiel, entre une rente différée à prime unique et une obligation d'épargne du Canada, alors que toutes les deux ont un intérêt composé?

Ms Muirhead: Perhaps the difference is that the series 36 bonds mature in 1988, so that relieving the 1987 reporting requirements for those made some sense, but—

Mme Muirhead: La différence réside peut-être en ce que les obligations de la série 36 viennent à échéance en 1988, de sorte qu'il est assez logique d'apporter un allègement pour celles-ci dans les dispositions de déclaration de 1987, mais. . .

Mr. McCrossan: It made sense because they did not have cash in their hands, but the people who have the SPDAs do not have cash in their hands either. What you are saying is that you need a relieving provision because people do not have their cash in their hands to pay taxes. But they do not have cash in their hands with the other instruments either and you are saying those ones should be hit somehow, whether the people have cash in their hands or not, because that is equitable. But your particular customers that you are concerned about who do not have cash in their hands should have relieving measures. That smacks a bit of hypocrisy.

M. McCrossan: C'était logique parce que les gens ne touchaient pas l'argent, mais les détenteurs de rentes différées ne le reçoivent pas non plus. Vous voulez dire qu'il faut un allègement parce que les gens n'ont pas l'argent en espèces pour payer les impôts, mais ils ne l'ont pas davantage pour les autres instruments, et cela ne vous empêche nullement de les imposer, qu'ils aient ou non l'argent, parce que c'est équitable. Mais les clients qui vous tiennent à coeur, et qui ne touchent pas l'argent, doivent bénéficier de mesures d'allègement. Voilà qui a un relent d'hypocrisie.

[Text]

Mr. Lalonde: I think the point Carol was making was that the change we are proposing in the context of the debt rules will resolve a problem that is a particular problem for this year. The same—

The Chairman: It will resolve the debt ones, but it does not resolve what Paul is talking about, the inside build-up of insurance policies or the annuity contracts.

Mr. McCrossan: Annuity contracts.

Mr. Lalonde: That is correct, although with the annuity contracts there was no particular problem with 1987. It is an ongoing issue which will be the same ongoing issue with any of the other investment contracts. This only changes the 1987 year effect of pre-1982—

Mr. McCrossan: Do all these provincial contracts you mentioned mature in 1987 as well, or do the measures apply to ones that mature in 1988 and 1989?

Mr. Lalonde: The measures also apply to the ones that mature in 1988 and 1989.

Mr. McCrossan: Right. That is exactly my point. You have structured it around the Canada Savings Bond issue, but you have grandfathered those other similar issues issued by provincial governments which do not happen to have an 1987 maturity. But on the ones issued by the private sector you have said no, this is a different kettle of fish: this is an ongoing problem, and even though they do not have the cash they have to pay the tax up front. Either everybody should pay the cash up front, whether they have received it or not, or everybody should get the tax relief. You are saying that your customers get special breaks compared to any other customers.

Mr. Lalonde: I understand what you are saying. Just to correct the record, any debt type of instrument issued by the private sector would, as well, qualify under this—

The Chairman: Sure, for the extra year, but if it happened to mature in 1989 then this would not help it. It would only help it for 1988.

Mr. McCrossan: It gets it a little closer.

Mr. Lalonde: That is right. If we defer it by the one year, it is the same thing that it does to the 1981—

Mr. McCrossan: But the justification for picking this one year was to accommodate the big CSB issue.

The Chairman: We could we not have picked 1992 or something?

Mr. Lalonde: The issue we were trying to address was, as is correctly pointed out, the large amount of CSBs that were going to become due in 1988. That is the one issue we were trying to address, and that is why the proposal

[Translation]

M. Lalonde: Ce que Carol voulait dire, c'est que la modification que nous proposons à ces règles résoudra un problème particulier à cette année. Le même. . .

Le président: La modification résoudra le problème des dettes, mais non celui dont parlait Paul, à savoir l'accumulation des contrats d'assurance ou des contrats de rente.

M. McCrossan: Les contrats de rente.

M. Lalonde: C'est exact, encore que dans ce cas, il n'y ait pas de problème particulier pour 1987. C'est une question permanente qui se posera de la même manière avec tout autre contrat d'investissement. Cette mesure ne modifie que l'effet, en 1987, des contrats datant d'avant 1982. . .

M. McCrossan: Est-ce que tous les contrats provinciaux dont vous parliez viennent également à échéance en 1987, ou ces mesures s'appliquent-elles à ceux qui viennent à échéance en 1988 et en 1989?

M. Lalonde: Ces mesures s'appliquent également à ceux qui viennent à échéance en 1988 et en 1989.

M. McCrossan: Bon, c'est exactement ce que je disais. Ces mesures ont été formulées en fonction de l'émission des obligations d'épargne du Canada, mais vous avez transformé en droit acquis les autres émissions semblables des gouvernements provinciaux qui ne viennent pas à échéance en 1987. Quant à celles qui sont émises par le secteur privé, vous avez opposé une fin de non-recevoir en disant que c'est une tout autre question, un problème permanent et que les gens reçoivent ou non l'argent, ils auront à payer leurs impôts d'avance là-dessus. La règle devrait être la même pour tous, que les gens aient ou non encaissé leurs effets, et tout le monde devrait soit payer les impôts d'avance, soit bénéficier de l'allègement fiscal. Vos clients sont donc favorisés.

M. Lalonde: Je comprends ce que vous voulez dire, mais je voudrais simplement préciser que toute obligation qui est émise par le secteur privé bénéficierait également, avec ces. . .

Le président: Oui, pour une année supplémentaire, mais si cet instrument venait à échéance en 1989, il n'en bénéficierait pas, mais seulement pour 1988.

M. McCrossan: Mais cela diminue l'écart.

M. Lalonde: C'est exact. Si nous différions les impôts d'une année, il en va de même pour l'émission de 1981. . .

M. McCrossan: Mais la justification dans le choix de cette année-là, c'était de tenir compte de la grosse émission d'obligations d'épargne du Canada.

Le président: Est-ce que nous n'aurions pas pu choisir 1992, par exemple?

M. Lalonde: Nous visions, comme il a été dit à juste titre, la grosse émission d'obligations d'épargne du Canada qui allait venir à échéance en 1988. C'était là notre cible, et c'est pourquoi la proposition ne s'applique qu'aux

[Texte]

applies only to the debt type of instrument, while it does pick up the other types of debt instruments that are not CSBs, but that are long-term investment contracts that may happen to mature in 1988, or may in fact mature at a later date.

• 1605

The Chairman: How much of this stuff is outstanding, aside from the CSBs?

Mr. Lalonde: There are some preliminary numbers around the department, but I do not have them.

The Chairman: Could you find those for us? This solves your CSB problem, I understand that. But if there is very little beyond that, then why do we not just extend them all and let them run themselves out, if there is not very much of a problem? The CSB problem was created by the same Minister who created the problem of stopping these deferrals. As a matter of fact, the issue was made—

Mr. McCrossan: The same civil service, not the same Minister.

Mr. Farber: Mr. Chairman, are you suggesting that all instruments be allowed to run to their maturity?

The Chairman: I want to know what is outstanding at 1988. If there is very little outstanding, other than the CSB issue, then why would we not just let them all run out? There is not very much tax to be gained, and if there is not very much tax to be gained, what are we doing here? All we are doing is making some people very unhappy who are going to come to us and say they cannot get their money from their annuity company, or their trust company, or their province, or whoever issued these darned things to them, and they are going to have to pay tax on interest. Not only that, by extending it the extra year, we have made it even worse for them. They are going to wind up with interest from 1982 right through, or interest from the beginning of their instrument right through, I guess.

Mr. Lalonde: Mr. Chairman, if I could go back to my comment about the preliminary numbers that were available at the department, those numbers are related to provincial bonds. We have some idea of how many provincial bonds are out there. We do not have any figures on other types of bonds that are out there—private sector long-term bonds. That kind of information is not available to us. Certainly to put in a *carte blanche* exception from the interest accrual rules, which fundamental policy has been accepted, is a very dangerous thing to do in the absence of knowing what it is you are excepting.

The Chairman: That is right. That is why I wanted to know what we were excepting.

Mr. Layton: I understand it is what we would be doing if we could try to find a consistency of fairness for all the holders, private or public sector, that we would be

[Traduction]

instruments de la catégorie dette, ramenant dans la même catégorie les créances qui ne sont pas des obligations d'épargne du Canada, mais qui sont des contrats d'investissement à long terme qui, par hasard, viennent à échéance en 1988, ou éventuellement à une date ultérieure.

Le président: À part les obligations d'épargne du Canada, combien de tout cela est-il encore en circulation?

M. Lalonde: Il y a des chiffres préliminaires au ministère, mais je ne les ai pas ici.

Le président: Pourriez-vous les obtenir pour nous? Je vois comment cela règle la difficulté que vous avez avec les obligations. Mais s'il n'y a pas grand-chose à part cela, pourquoi ne pas les proroger toutes jusqu'à échéance, si cela ne cause pas de grosses difficultés? Le problème des obligations a été créé par le même ministre qui a créé le problème causé par l'interdiction des reports. De fait, cette émission...

M. McCrossan: La même administration, pas le même ministre.

M. Farber: Monsieur le président, préconisez-vous de laisser aller jusqu'à échéance tous les effets?

Le président: Je veux savoir ce qui reste en circulation en 1988. S'il y a peu d'effets en circulation, à part les obligations, pourquoi ne pas les laisser courir tous? Il n'y a pas beaucoup d'impôt à récolter, alors à quoi bon? Le seul résultat, c'est que nous indisposons pas mal de gens qui viendront se plaindre ici de ne pas pouvoir encaisser auprès de leur fiducie ou de leur compagnie d'assurances ou de la province, enfin de quiconque a émis ces sacrés effets, et de devoir payer de l'impôt sur l'intérêt. Pis encore, l'année supplémentaire que nous avons accordée rend leur situation plus difficile encore. Ils vont se retrouver avec de l'intérêt qui va courir de 1982 jusqu'à l'échéance ou à partir de l'année d'émission, je suppose.

M. Lalonde: Monsieur le président, je voudrais revenir sur ce que je disais à propos des chiffres préliminaires que nous avons au ministère. Ils portent sur les obligations provinciales. Nous avons une idée approximative du nombre d'obligations provinciales en circulation, mais pas sur les autres types d'obligations à long terme émises par le secteur privé. Ces renseignements-là, nous ne les avons pas. Si l'on ne sait pas quels effets seront exonérés d'impôt, il est très dangereux de tout soustraire aux règles de déclaration des intérêts selon la méthode de comptabilité d'exercice.

Le président: Tout juste. C'est précisément pour cela que je voulais savoir quels effets étaient exonérés.

M. Layton: C'est ce qui arriverait si l'on essayait d'appliquer la même règle à tous les détenteurs d'obligations, du secteur privé ou du secteur public, en

[Text]

deferring tax to be paid. There would not be any loss of revenue, it would be a deferred revenue—is that right?—going back until cash was received to pay the taxes.

Mr. Lalonde: That is right. The effect of this proposal is to defer by one year the tax payable on all these types of debt-type investment contracts.

Mr. Layton: I sense, Mr. Chairman, from your remarks and Paul's that it is inconsistent and it is unfair, that in order to create this we are—

The Chairman: An unfair rule that should have been abolished long ago. It is wrong. It was a bad—

Mr. Layton: The offset is a few dollars have been deferred. I do not know how many.

The Chairman: People bought these instruments before the 1981 budget. They were tied in to fixed contracts. The government went along and said we will let you have until 1987 either to cash your contracts and pay your income tax or you are going to have to pay the income tax on the interest anyway. The government is coming along now and saying whoops, we made a mistake; we have issued a bunch of Canada Savings Bonds and it would not be fair to our specific customers, so we are going to extend it so our customers are okay, and to hell with the rest of the customers.

Mr. Layton: What would be required to make it all fair, Mr. Chairman?

The Chairman: Put 2000 in there instead of 1988; that would solve the problem. I think that would solve the problem, Mr. Farber.

Mr. Farber: It would defer the tax on the income until the year 2000, Mr. Chairman. I will agree that it will accomplish that.

Mr. Layton: Would it not be payable when received?

The Chairman: It is payable when received anyway.

Mr. Layton: It does not have to be up to 2000. It could be in 1989 or 1990.

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The Chairman: As those things fell in, they would all be phased.

Mr. Farber: It could be 2000.

Mr. Layton: It could be.

Mr. Farber: There may well be bonds out there with maturity dates of 10 or 20 years, I do not know.

Mr. Layton: We are getting smaller and smaller and smaller numbers.

Mr. McCrossan: Are there cumulative bonds that are not interest paying? It is hard to believe it. I am not aware of any 20-year cumulative non-interest-paying bonds that

[Translation]

reportant l'impôt à payer. Il n'y aurait pas de pertes de revenu, puisque le revenu ne serait que reporté—n'est-ce pas?—le montant étant calculé depuis le moment où l'argent a été reçu pour acquitter les impôts.

M. Lalonde: C'est ça. Cette proposition a pour effet de reporter d'un an l'impôt à verser sur ces types de contrats de placement assimilables à des dettes.

M. Layton: Monsieur le président, d'après votre intervention et celle de Paul, j'ai l'impression qu'il n'est ni uniforme ni juste, pour. . .

Le président: Il s'agit d'une règle injuste qui aurait dû être abolie il y a belle lurette. C'est une erreur. . .

M. Layton: En contrepartie, quelques dollars ont été reportés. Je ne sais pas combien.

Le président: Les gens ont acheté ces effets avant le budget de 1981. Ils étaient assujettis à un contrat fixe. Le gouvernement est entré dans la ronde et a déclaré qu'ils pourraient attendre jusqu'à 1987 pour encaisser l'effet et acquitter l'impôt sans quoi il faudrait acquitter l'impôt sur l'intérêt de toute façon. Aujourd'hui, le gouvernement se ravise et trouve que son émission d'obligations d'épargne lèse certains de ses clients et décide de prolonger la période pour contenter ses clients et envoyer au diable les autres.

M. Layton: Que faudrait-il faire pour que cela soit juste, monsieur le président?

Le président: Fixer l'échéance à l'an 2000 plutôt qu'à l'an 1988. Voilà qui réglerait le problème, monsieur Farber.

M. Farber: Cela reporterait l'impôt sur le revenu jusqu'à l'an 2000, monsieur le président. J'en conviens.

M. Layton: L'impôt ne serait-il pas à payer au moment où l'intérêt a été reçu?

Le président: C'est payable sur réception de toute façon.

M. Layton: On n'a pas besoin d'aller jusqu'à l'an 2000, ça pourrait être 1989 ou 1990.

Le président: Ce serait introduit graduellement.

M. Farber: Ça pourrait être l'an 2000.

M. Layton: Ça pourrait.

M. Farber: Il est bien possible qu'il y ait en circulation des obligations qui n'échoient que dans 10 ou 20 ans. Je ne sais pas.

M. Layton: On parle de périodes de plus en plus courtes.

M. McCrossan: Y a-t-il des obligations à intérêt composé qui ne comportent aucun paiement d'intérêt? J'ai mal à le croire. Je n'ai jamais entendu parler

[Texte]

were around. If you are talking about compound interest—

The Chairman: There may be 10-year stuff though.

Mr. Layton: Ten years would be all right.

Mr. Farber: There certainly are some 10-year bonds. There are certainly many 10-year provincial bonds, as far as I understand.

Mr. McCrossan: From a morality point of view, how do you come to grips with saying that you are going to nail a provincial 10-year compound bond, but that it is in the public interest to exempt a 7-year or 8-year Government of Canada bond? Our taxpayers will not have the money to pay the tax; that is, the people who invested with us. Where is the morality in doing this?

Mr. Farber: Mr. Chairman, what I am not understanding, I guess, is that we are not purporting to nail anything here. It is a one-year deferral. What is being put on the table as a recommendation—

Mr. McCrossan: It just so happens you will recover your customers.

Mr. Farber: —is a deferral to some point in time. It was a trust facetiously put on the table the year 2000. This would be deferring everything until they actually matured, unless they were paid beforehand.

The Chairman: This is correct.

Mr. Farber: We have a three-year accrual rule that has been put in place and has been operative—

Mr. McCrossan: For persons after 1981.

Mr. Farber: —and there has also been a \$1,000 interest income exemption—

The Chairman: There is not any more.

Mr. Farber: —which taxpayers have had a choice. There is not any more; you are right, Mr. Chairman. We are going back to when this was instituted, where taxpayers did have a choice of reporting on an annual basis, if it served their purposes.

Mr. McCrossan: Do you have any idea what proportion of the compound bonds have been reported on the annual basis as opposed to allowing the interest to roll up without reporting?

Mr. Farber: No, I have not.

Mr. McCrossan: It may be that you are creating something to favour your own clients but it just emphasizes the bad treatment of the other people. What does this measure?

The Chairman: I think we have had a good discussion on this. We understand it, I think, so let us move on. Can

[Traduction]

d'obligations cumulatives de 20 ans qui ne comportent aucun paiement d'intérêt. Si vous parlez d'intérêt composé. . .

Le président: Il peut y avoir des obligations de 10 ans par contre.

M. Layton: Dix ans, ça irait.

M. Farber: Il y a certainement des obligations de 10 ans. Il y a certainement beaucoup d'obligations provinciales de 10 ans, à ce que je sache.

M. McCrossan: Moralement, comment justifiez-vous de vous en prendre aux obligations provinciales de 10 ans à intérêt composé tout en exonérant, sous prétexte que cela sert l'intérêt public, les obligations de sept ou huit ans du Canada? Les contribuables n'auront pas l'argent pour verser cet impôt. Je parle de ceux qui ont investi en obligations du gouvernement du Canada. Moralement, comment justifiez-vous cela?

M. Farber: Monsieur le président, je ne vous suis pas. Nous n'essayons pas de nous en prendre à qui que ce soit. Il s'agit d'un report d'un an. La recommandation que nous faisons, c'est. . .

M. McCrossan: Il se trouve que vous allez récupérer des clients.

M. Farber: . . . de reporter cela à plus tard. L'an 2000, ce n'était pas une proposition sérieuse. Cela reviendrait à tout reporter jusqu'à l'échéance, à moins que ces obligations n'aient été encaissées plus tôt.

Le président: Précisément.

M. Farber: Actuellement, il faut déclarer les intérêts tous les trois ans selon la méthode de comptabilité d'exercice.

M. McCrossan: Pour les obligations postérieures à 1981.

M. Farber: Il y a aussi l'exonération d'impôt de 1,000\$ pour les revenus provenant d'intérêt.

Le président: Qui n'existe plus.

M. Farber: . . . dont les contribuables pouvaient se prévaloir. Cela n'existe plus, vous avez raison, monsieur le président. Nous allons revenir au moment où cela a été créé, à l'époque où le contribuable avait la faculté de déclarer ses intérêts tous les ans, si cela lui convenait.

M. McCrossan: Savez-vous combien d'intérêts composés ont été déclarés annuellement plutôt que de s'accumuler sans déclaration?

M. Farber: Non.

M. McCrossan: Vous créez peut-être ainsi quelque chose qui profitera à vos propres clients, mais cela ne fait que mettre en évidence le manque d'égards que vous avez pour les autres.

Le président: La discussion a été bonne. Comme nous savons maintenant de quoi il retourne, continuons. Peut-

[Text]

we go on to consequential clauses? What are master trusts all about?

Mr. Farber: Mr. Chairman, the principal clause there is clause 50, which deals with a master trust concept. I will ask Carol to explain it to the committee.

Ms Muirhead: Master trusts as we have defined them—and I think as they are also referred to in the industry—are trusts that hold investments exclusively for registered pension plans. The principal change in clause 50 and the consequential clauses listed in clauses 37.(3), 60 and 61.(3) relieve some of the administrative burden for the trustees of these trusts. Under the existing rules these trustees must compute the income for tax purposes of these trusts and must actually distribute the income to the pension funds year, in order to avoid Part I tax. We provide an exemption from Part I tax for these master trusts.

The Chairman: Why?

Ms Muirhead: Because their beneficiaries are entirely tax-exempt pension funds. Because they are an extension of tax exempt pension funds, we have also in the consequential changes here subjected them to the foreign property limits in Part XI of the act. We have excluded them from being considered foreign property because they are trusts. They would then fall into the definition of foreign property for the purposes of Part XI.

The Chairman: Why would they fall into foreign property?

Ms Muirhead: An interest in a trust by definition is foreign property, unless it is specifically prescribed out. For example, we have provided in the regulations that mutual fund trusts and pool fund trusts, which are defined things, are not foreign property. Similarly, we have now provided that master trusts are not.

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The Chairman: Paul, have you taken a look at this particular trust exemption?

Mr. McCrossan: No, I have not.

Ms Muirhead: These changes, Mr. Chairman, were recommended by the Trust Companies Association of Canada over the past year. So we discussed the changes with them.

Mr. Farber: Before we move on, Mr. Chairman, on page 136 of the second-reading amendments that we have given you, we have a technical second-reading amendment.

Ms Muirhead: These trusts, for purposes of the foreign property rules, can elect to be looked through under section 259. One of our changes earlier on was to change the reference to fair market value, for the purposes of these measures, to cost amount. This amendment changes that reference to cost amount in section 259.

[Translation]

on passer aux dispositions corrélatives? Qu'est-ce que c'est que ces fiducies principales?

M. Farber: Monsieur le président, l'article principal ici, c'est l'article 50 qui traite des fiducies principales. Je vais demander à Carol de vous donner les explications voulues.

Mme Muirhead: Pour nous et pour l'industrie, les fiducies principales sont celles qui détiennent des placements uniquement aux fins des régimes enregistrés de retraite. À l'article 50 et dans les dispositions corrélatives 37.(3), 60 et 61.(3), le principal changement c'est qu'on enlève certaines tâches administratives aux administrateurs de ces fiducies. Sous le régime actuel, les fiduciaires doivent calculer le revenu aux fins d'impôt et le verser au fonds chaque année pour éviter d'avoir à payer de l'impôt en application de la partie I. Nous exonérons de cet impôt les fiducies de ce genre.

Le président: Pourquoi?

Mme Muirhead: Parce que ce sont des fonds de pension exonérés d'impôt qui en sont les bénéficiaires. Comme ils sont le prolongement d'un fonds de pension exonéré d'impôt, nous les avons aussi, dans les modifications corrélatives, assujettis aux limites sur les biens étrangers que l'on retrouve à la page XI de la loi. Nous avons veillé à ne pas les assimiler à des biens étrangers parce que ce sont des fiducies. Ils auraient alors été assimilés à des biens étrangers aux fins de la partie XI.

Le président: Pourquoi seraient-ils assimilés à des biens étrangers?

Mme Muirhead: Par définition, une participation dans une fiducie est un bien étranger à moins de définition contraire expresse. Par exemple, le règlement prévoit que les fonds mutuels ne sont pas assimilés à des biens étrangers. Nous avons fait de même pour les fiducies principales.

Le président: Paul, avez-vous considéré une exemption pour ce type de fiducie?

M. McCrossan: Non.

Mme Muirhead: Monsieur le président, ces modifications ont été recommandées par l'Association des compagnies de fiducie du Canada l'année dernière. On en a discuté avec ses représentants.

M. Farber: Avant d'aller plus loin, monsieur le président, à la page 136 du recueil des amendements de deuxième lecture que nous vous avons donné, il y a un amendement de forme.

Mme Muirhead: Aux fins des règles sur les biens étrangers, ces fiducies peuvent se réclamer de l'article 259. Dans une modification antérieure, on était passé de la juste valeur marchande au coût indiqué. Le présent amendement met «coût indiqué» à l'article 259.

[Texte]

The Chairman: Then you have provincial pension plans.

Mr. Farber: Before we get to that, Mr. Chairman, there are clauses 58 and 59, Part IV tax. His deals with prescribed venture capital corporations.

The Chairman: Let us go over that one again then: clauses 58 and 59. Is that because venture capital companies are sometimes not deemed to be active corporations?

Ms Muirhead: No. These changes restrict somewhat the exemption from Part IV tax that these venture capital companies presently enjoy. They enjoy a complete exemption from the tax under Part IV on the dividends they receive. So under the existing rules they could be investing in Bell Canada shares and not pay Part IV tax on those dividends, even though they are private companies and Part IV was designed to apply to that kind of situation, a private company receiving portfolio dividends. We have changed the rules to get back to the original intention here, that Part IV should not apply to dividends that the venture capital companies receive from venture capital types of investments.

The Chairman: You create a complication though, do you not, unless you have a venture capital company. . .? Have you had much abuse here?

Ms Muirhead: In fact, this change was precipitated by the new Quebec Business Investment Corporation rules. We recently prescribed that type of venture capital corporation, and under that regime there is no control over the type of investment that a corporation may hold—

The Chairman: Yes.

Ms Muirhead: —because the Quebec assistance is an after-the-fact assistance. It applies only with respect to the venture capital type of investment that a fund registered under that regime makes. We were concerned that someone would form a Quebec Business Investment Corporation and make a few qualifying investments. He would invest in all sorts of portfolio public corporation shares just to get this Part IV exemption.

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The Chairman: Am I wrong? If a private corporation receives dividends, they flow through to it as exempt income, do they not?

Ms Muirhead: No. A private corporation is subject to Part IV tax. It is 25% on those dividends to the extent that they are from publicly traded shares. If it is receiving dividends from a wholly owned subsidiary, they are exempt. When they distribute dividends to their shareholders, they get this tax back. It is a refundable tax.

[Traduction]

Le président: Puis il y a les régimes de retraite provinciaux.

M. Farber: Avant de passer à cela, monsieur le président, il y a aussi les articles 58 et 59 de l'impôt de la Partie IV. Il s'agit des corporations à capital de risque prescrites.

Le président: Bon, revoyons-les: articles 58 et 59. Est-ce parce que les corporations à capital de risque sont parfois réputées ne pas être des corporations actives?

Mme Muirhead: Non. Ces amendements limitent légèrement l'exonération de l'impôt de la Partie IV dont bénéficient ces compagnies à capital de risque. Elles sont entièrement exonérées de l'impôt de la Partie IV en ce qui concerne les dividendes reçus. Aux termes de la Loi actuelle, elles pourraient acheter des actions de Bell Canada et ne payer aucun impôt de la Partie IV sur ces dividendes, même s'il s'agit de compagnies privées et que la Partie IV a été conçue pour s'appliquer à ce genre de situation, à savoir une compagnie privée qui reçoit des dividendes de portefeuille. Nous avons changé le règlement pour revenir à l'intention première de la Loi, à savoir que la Partie IV ne devrait pas s'appliquer aux dividendes que les compagnies à capital de risque reçoivent de placements à risque.

Le président: Mais vous créez une nouvelle complication, n'est-ce pas? A moins qu'une compagnie à capital de risque. . .? Y a-t-il beaucoup d'abus?

Mme Muirhead: En fait, il a fallu apporter cette modification à cause des nouvelles règles de la Société de placement commercial du Québec. Ce genre de corporation à capital de risque vient d'être prescrite et, sous ce régime, rien ne prescrit le genre de placement qu'une corporation peut détenir. . .

Le président: Oui.

Mme Muirhead: . . . parce que l'aide du Québec est donnée après coup. Elle ne s'applique qu'aux placements à risque effectués par un fonds enregistré dans ce régime. Nous avons peur que quelqu'un crée une société de placement commercial québécoise et effectue des placements ouvrant droit à cette aide. Le propriétaire aurait pu acheter toutes sortes d'actions de sociétés publiques à seule fin d'obtenir l'exonération de l'impôt de la Partie IV.

Le président: Est-ce que je me trompe? Si une corporation privée touche des dividendes, ils sont exempts d'impôt, n'est-ce pas?

Mme Muirhead: Non. Une corporation privée est assujettie à l'impôt de la Partie IV. Il s'agit de 25 p. 100 des dividendes dans la mesure où il s'agit d'actions publiques. Ce sont les dividendes obtenus d'une filiale en propriété exclusive qui sont exempts d'impôt. Quand ces dividendes sont distribués aux actionnaires, l'impôt est remboursé.

[Text]

The Chairman: You are talking about a private investment operation. This adds another complication to a venture capital corporation which happens to have some dividend income coming in while it has some money parked temporarily. You create a Part IV problem for them and I am wondering whether it is all worth the effort. What are we trying to achieve by this?

Ms Muirhead: We felt it was necessary to make this change to proscribe the new Quebec venture capital corporation. Under its rules there was no limit on the size of the fund and the type of investment it could make. Most of the other provincial venture capital regimes limit the fund to investing in small business. This change should have quite a narrow impact primarily to limit the kind of transactions these Quebec—

The Chairman: Did you try to negotiate something with Quebec?

Ms Muirhead: No, their act was already in force when we were looking to proscribe it.

Mr. Layton: I guess the intent is that we would be equal with all the provinces. I wonder if Mr. Garneau can comment.

Mr. Garneau: I have no idea what we are talking about.

The Chairman: We are talking about Part IV tax on these private corporations.

Mr. Garneau: I am not aware of the details.

Mr. Layton: As the witnesses said, apparently we are aiming this particular change at an anomaly in Quebec.

The Chairman: I wonder why you did not talk to Quebec and see if you could get them to slightly alter their law.

Ms Muirhead: I suppose we did not want any venture capital corporations across the country to invest to whatever limit they could in portfolio securities or shares for the purpose of just getting this Part IV exemption.

Mr. Layton: That seems reasonable, Mr. Chairman.

The Chairman: I suppose it is, but I do not see the theory behind it. I want to think about that one.

Mr. Farber: Mr. Chairman, the principal clause is 67.(4). It merely introduces a \$500 threshold rule whereby penalties will not be assessed, but interest on later deficient remittances of source deductions including UIC and CPP will be charged. Penalties will not be. On page 125 of the package of second reading amendments, there is a merely consequential amendment which relates to a cross-reference. It is a minor technical change.

[Translation]

Le président: Il s'agit d'une opération de placement privée. Cela vient compliquer encore davantage la situation des corporations à capital de risque qui se trouvent seulement à toucher un revenu en dividendes au moment où de l'argent est placé temporairement. Vous leur créez un problème aux termes de la Partie IV et je me demande si ça vaut la peine. Quel résultat escompte-t-on?

Mme Muirhead: Cette modification nous a semblé nécessaire à cause de la nouvelle société à capital de risque au Québec. Ses règles de constitution ne placent aucune limite sur l'ampleur ou la nature du fonds d'investissement qu'elle a le droit de créer. La plupart des autres régimes provinciaux de société à capital de risque limitent les placements aux seules petites entreprises. L'effet de cette mesure devrait être circonscrit au Québec.

Le président: Avez-vous essayé de négocier quelque chose avec le Québec?

Mme Muirhead: Non, la loi québécoise était déjà en vigueur au moment où nous avons cherché à interdire cela.

M. Layton: On a essayé de mettre toutes les provinces sur un pied d'égalité. Peut-être M. Garneau voudra-t-il nous faire ses commentaires.

M. Garneau: Je n'ai aucune idée de quoi vous parlez.

Le président: Nous parlons de l'impôt de la Partie IV sur ces corporations privées.

M. Garneau: Je ne connais pas les détails de cette affaire.

M. Layton: Comme l'ont dit les témoins, il semble que nous essayions de corriger une anomalie au Québec.

Le président: Pourquoi vous n'avez pas cherché à obtenir du gouvernement du Québec qu'il modifie légèrement sa loi.

Mme Muirhead: Nous ne voulions pas qu'une corporation à capital de risque, n'importe où au pays, n'investisse une somme illimitée en titres ou actions de portefeuille uniquement pour être exonérée de l'impôt de la Partie IV.

M. Layton: Ça me semble raisonnable, monsieur le président.

Le président: Je suppose que ça l'est, mais je ne veux pas que le principe préside à cette mesure. Laissez-moi y réfléchir.

M. Farber: Monsieur le président, l'article principal est le 67.(4). On crée un seuil de 500\$ au-delà duquel les pénalités ne seront pas calculées, mais l'intérêt sur les versements en retard ou manquants pour des retenues à la source comme l'assurance-chômage et le RPC sera exigé. Les pénalités ne le seront pas. À la page 125 du deuxième recueil d'amendements de deuxième lecture, on retrouve un amendement corrélatif à propos d'un renvoi. C'est un amendement de forme mineure.

[Texte]

[Traduction]

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The next clause, Mr. Chairman, relates to prescribed prizes. The principal clause is 15.(2), which is a provision that excludes the exclusion of a prescribed prize from income.

The Chairman: Why do you call it a prize? Oh, I see: subject to a \$500 *de minimis* rule, must include as income any amount or any prize received.

Mr. Minaker: Is this a trip to Hawaii or something like that for top salesman in the unit?

Mr. Lalonde: No, it is not that type of thing. It is a prescribed prize that is prescribed by the regulations. The regulation we put out with the technical notes released in June 1987 talks about a prize, which is recognized by the general public and which is awarded for meritorious achievement in the arts sciences or services to the public, but does not include any prize that can reasonably be regarded as having been received as compensation for services rendered or to be rendered.

The Chairman: How much do we hope to get out of people?

Mr. Layton: This includes the Nobel Prize.

Mr. Lalonde: Yes. This is not a tightening provision. This is not a provision designed to impose a tax. There is a tax already there. This is an exception—

The Chairman: I see. This is a *de minimis* ruling.

Mr. Lalonde: No, it is not the *de minimis* rule, which was there already. This is a rule to exempt prescribed prizes from the existing rule, which requires that all prizes be included in income. The type of prescribed prizes we are looking at are publicly recognized prizes for meritorious achievement. An example, as was pointed out, would be the Nobel Prize.

Mrs. Collins: Would it include things like the big one the Royal Bank gives every year?

Mr. Lalonde: We are very concerned not to get down a road where we would have to prescribe a plethora of prizes. We intend to put in a general rule about prizes that are generally regarded by the public as being in respect of meritorious endeavour in a field. The Royal Bank prize, to the extent I understand it, is a prize in respect of excellence in literature and is one that may qualify, although, as I say, while I understand it is in respect of that, I do not have the detailed knowledge of the prize to tell you whether it is one that is, in the general public concept, one that is considered to be awarded for meritorious achievement, unlike the Nobel Prize, which is one that is a little better known.

Mrs. Collins: Who would decide?

L'article suivant, monsieur le président, concerne les récompenses visées. Le sous-alinéa 2 de l'article 15 est le plus important, qui rétablit l'obligation d'inclure dans le revenu toute récompense touchée.

Le président: Pourquoi appelez-vous cela une récompense? Oh, je vois: il doit inclure dans son revenu l'excédent, sur 500\$, du montant qu'il reçoit à titre de récompense.

M. Minaker: Est-ce que cela vise le voyage à Hawaii ou un prix quelconque attribué au plus gros vendeur?

M. Lalonde: Non, ce n'est pas ce genre de chose qui est visée. Il s'agit d'une récompense visée par le règlement. Le règlement, ainsi que les notes techniques publiées en juin 1987, parlent de récompense, soit de récompense reconnue par le public et décernée pour une oeuvre méritoire réalisée dans le domaine des arts, des sciences ou des services au public. Elles n'en sont pas pour les montants qu'il est raisonnable de considérer comme reçus en compensation pour services rendus ou à rendre.

Le président: Vous appelez cela une façon d'encourager les gens?

M. Layton: Le prix Nobel est compris là-dedans.

M. Lalonde: Précisément. Il ne s'agit pas d'un resserrement de la Loi, d'une disposition destinée à imposer un nouvel impôt. L'impôt existe déjà. Il s'agit d'une exception. . .

Le président: Je vois. La règle *de minimis*.

M. Lalonde: Non, la règle *de minimis* est déjà en vigueur. Il s'agit d'une règle permettant d'exonérer les récompenses visées et qui est abolie, et désormais toutes les récompenses doivent être incluses dans le revenu. Ce qui nous intéresse, ce sont uniquement les récompenses reconnues par le public et décernées pour une oeuvre méritoire. Nous avons donné comme exemple le prix Nobel.

Mme Collins: Est-ce que cela inclurait le gros lot décerné chaque année par la Banque Royale?

M. Lalonde: Nous ne voulons surtout pas avoir à exclure toutes sortes de récompenses. Nous voulons une règle générale sur les récompenses reconnues par le public et décernées pour une oeuvre méritoire dans un domaine quelconque. Le prix accordé par la Banque Royale, dans la mesure où je suis au courant, couronne une réussite littéraire particulière et, à mon avis, pourrait tomber sous le coup de la Loi, mais je ne connais pas suffisamment le détail et je ne sais pas vraiment s'il s'agit là d'une récompense reconnue par le public et décernée pour une oeuvre méritoire, alors que le prix Nobel est un peu mieux connu.

Mme Collins: Qui va trancher?

[Text]

Mr. Lalonde: This would be the decision of Revenue Canada in the context of their administration of the Income Tax Act and the regulations promulgated pursuant thereto.

Mr. Layton: Would it apply to those prizes that are related to medical science, for instance, and research, where one or other of the corporations, organizations or institutions might award a prize to a doctor in his field to continue research in cancer? Obviously this was not intended to catch such a prize in the net, was it? In other words, I have to get used to this; this is proposed to exempt certain ones. Would the type I am talking about be exempted?

Mr. Lalonde: For perhaps a better way or a different way to look at it would be to ask would we want to exempt a prize where a corporation had six research scientists on staff and every year would give each one of those scientists a prize? Clearly not. This is why we have designed our regulation to specify a prize that is publicly regarded as being a prize generally available and that is there for meritorious achievement in a field.

• 1630

The Chairman: Who pressed for this amendment?

Mr. Lalonde: This amendment was brought to our attention by Revenue Canada as a result of their internal review. It concluded that the existing provisions would require taxability of the Nobel Prize, contrary to the situation in most countries.

The Chairman: But your statute says the Minister can exempt anybody, does it not?

Mr. Lalonde: The exemption was provided as a prize to be prescribed by the Governor in Council. The reason for the prescription is that we could not put into the Income Tax Act an exemption in respect of the Nobel Prize when there are other equally meritorious prizes the Department of Finance may not be aware of. It would be cumbersome to have to amend the act every time new representations came to our doors.

This problem was brought to the attention of Revenue Canada by a 1983 court case. I believe it was the Savage case. It provided an unintended tax preference that was fixed in 1985, as well as this unintended application to prizes of a general public nature. The unintended tax preference was recognized and corrected early. The other change, which inadvertently required taxability of more public prizes, was identified a little later and was made retroactive to 1983.

The Chairman: I have difficulty with this thing. Some young person is going to a university; he is given a scholarship. We make him pay tax on that. Someone gets a great big prize from an international committee; he is

[Translation]

M. Lalonde: Le ministère du Revenu, dans le cadre de l'administration de la Loi sur le revenu et du règlement afférent.

M. Layton: Est-ce que la loi s'appliquera aux prix décernés dans le domaine des sciences médicales, par exemple, ou pour des recherches, lorsqu'une ou plusieurs sociétés, organisations ou institutions accordent une récompense à un médecin qui fait de la recherche sur le cancer dans son domaine de spécialisation? L'intention n'était sûrement pas de couvrir ce genre de récompense, n'est-ce pas? En d'autres termes, il va falloir qu'on s'y habitue: certaines récompenses seront exonérées, mais dans le cas que je cite, s'agit-il d'une récompense exonérée?

M. Lalonde: Une meilleure façon de voir les choses serait de se demander par exemple si la récompense n'est pas imposable lorsque la société a six hommes de sciences parmi son personnel qui se consacrent à la recherche et que chacun d'eux reçoit chaque année une récompense? Certainement pas. C'est pourquoi nous avons un règlement qui précise qu'il doit s'agir d'une récompense reconnue par le public et décernée pour une oeuvre méritoire dans un domaine quelconque.

Le président: Qui a insisté pour avoir cet amendement?

M. Lalonde: Il a été suggéré à Revenu Canada, suite à l'examen interne. Contrairement aux dispositions qui existent dans la plupart des autres pays, le Prix Nobel devait en effet être considéré comme imposable.

Le président: Mais on dit dans la Loi que le ministre peut accorder une exemption, s'il le veut?

M. Lalonde: L'exemption prévue pour une récompense visée peut être accordée par le gouverneur en conseil. La raison, c'est qu'il n'était pas possible de préciser dans la loi qu'une récompense du type Prix Nobel serait exemptée alors qu'il y a peut-être d'autres récompenses tout aussi méritées dont le ministère des Finances ignore peut-être l'existence. Ce serait trop compliqué d'amender la loi chaque fois que quelqu'un cogne à notre porte.

C'est une poursuite devant les tribunaux, en 1983, qui a attiré là-dessus l'attention de Revenu Canada. Je pense qu'il s'agissait de l'affaire Savage. En 1985 cela a donné lieu à des traitements fiscaux préférentiels qui n'avaient pas été prévus, pas plus que l'application à des récompenses publiques. Quand on s'en est rendu compte, l'anomalie a été rectifiée rapidement. C'est un peu plus tard seulement qu'on s'est aperçu que, par inadvertence aussi, la plupart des récompenses publiques devenaient taxables, et la mesure a été rendue rétroactive à partir de 1983.

Le président: Je n'aime pas beaucoup cela. Prenez le cas d'un jeune homme qui va à l'université et qui reçoit une bourse. Il doit être imposé sur cette bourse. Quelqu'un qui reçoit une grosse récompense d'un comité

[Texte]

probably earning lots of money anyway; he goes overseas and gets presentations; and it is okay for him to have some tax-free money. I just do not know how you designate. I do not know how you say that somebody who earns a scholarship at a university is going to pay tax, but a Minister by Order in Council can designate someone else's prize to be tax-free.

Mr. Lalonde: Two points I would make on that: one is that the taxability of scholarships is not something that was implemented as a result of Bill C-64; that was an existing feature of our tax system.

The Chairman: I appreciate that.

Mr. Minaker: Then we have George Bell. Poor George won \$50,000 for MVP with the Toronto Blue Jays.

The Chairman: Because he was with the Blue Jays, he will be exempt.

Mr. Lalonde: The other point is that the scholarship income by the fellow who is in university is subject to a \$500 *de minimis* rule, which he does not have to include in income.

To the extent that the excess is included in income, the individual would still qualify for his basic personal exemption and the basic personal tax credit. So the amount would be taxable only in those situations where the individual receives scholarship income in such an amount that it exceeded all of his personal exemptions as well as the \$500 *de minimis* rule.

The Chairman: You go after people making \$9,000 and \$10,000 a year going to university, yet people getting big prizes because they are hot-shots are to be exempted.

• 1635

Mr. Lalonde: I cannot comment on the politically hot-shot, although prizes such as the Nobel Prize I think are internationally recognized as being apolitical and therefore a meritorious achievement.

The Chairman: Okay. And George Bell is apolitical too.

Mrs. Collins: He would not qualify.

Mr. Farber: The next clause, Mr. Chairman, deals with prescribed provincial pension plans. The principal clause is there. There are two clauses, including some second-reading amendments, which I will refer you to in a moment. One deals with subclause 15.(1) and the other with clause 17. There are a number of other consequential changes dealing with retirement compensation arrangements that we will deal with when we get to the principal clause for that a little later on.

[Traduction]

international a, de toute façon, un salaire assez confortable, il peut se rendre à l'étranger pour toucher ces récompenses mais lui n'a pas besoin de payer d'impôt sur cette récompense. Je vois mal comment vous pouvez décider cela. Je vois mal comment on peut taxer la bourse du jeune homme qui va à l'université et comment le ministre, par arrêté en conseil, peut décréter que la récompense gagnée par quelqu'un ne sera pas imposée.

M. Lalonde: J'ai deux arguments à cet égard: d'une part, si les bourses de scolarité sont imposables, ce n'est pas à cause de l'adoption du projet de loi C-64; cela a toujours été le cas dans notre régime fiscal.

Le président: Et je m'en rends compte.

M. Minaker: Et puis, nous avons George Bell, ce pauvre George qui a gagné 50,000\$ comme joueur le plus utile des Blue Jays de Toronto.

Le président: Parce qu'il travaille pour les Blue Jays, il est exonéré.

M. Lalonde: Mon deuxième argument, c'est que la bourse que reçoit le jeune homme qui va à l'université relève de la règle *de minimis* et il n'est pas obligé de l'inclure dans son revenu.

Dans la mesure où l'excédent est inclus dans le revenu, la personne a toujours le droit de réclamer son exemption personnelle et son crédit d'impôt de base. Ainsi, cette bourse ne deviendra imposable que si le montant dépasse ses exemptions personnelles ainsi que les 500\$ permis aux termes de la règle *de minimis*.

Le président: Vous vous en prenez à des jeunes qui vont à l'université et qui ont 9,000\$ ou 10,000\$ de revenu, mais les gros bonnets qui touchent de grosses récompenses, du fait même de leur importance, se trouvent exemptés.

M. Lalonde: Je ne veux pas parler des gens qui ont des relations politiques, même si des prix comme le Prix Nobel, reconnu par tous les pays au monde comme un prix non politique représente certainement le couronnement d'une oeuvre méritoire.

Le président: Bon. George Bell est non politique, lui aussi.

Mme Collins: Ça ne s'applique pas à lui.

M. Farber: Dans l'article suivant, monsieur le président, on parle des régimes provinciaux de pensions prescrits. C'est l'article principal. Il y en a deux, y compris des amendements à l'étape de la deuxième lecture, et j'en parlerai dans un instant. L'un se rapporte à l'article 15.(1) et l'autre à l'article 17. Il y a un certain nombre d'autres amendements qui en découlent concernant les versements de retraite mais nous en parlerons plus tard lorsque nous étudierons l'article principal.

[Text]

Basically, of these two clauses, one requires the inclusion of payments out of a prescribed pension plan, primarily to address the Saskatchewan pension plan issue, to bring that in line with all other pension plans. It also permits a taxpayer to deduct contributions he makes to his account in the plan.

As well, there are a number of very technical changes in the second-reading amendments on page 22, some of which deal with the retirement compensation arrangements as well. But the first change deals with an exclusion of a prescribed provincial plan from the attribution rules. The next one deals with some technical changes in retirement compensation arrangements, which we can deal with as we get into that clause later on. Page 60 again deals with a cross-referencing consequential change to the prescribed provincial pension plans.

Mr. McCrossan: Was the issue here that prescribed pension plans set up by provincial governments for their own employees are not registered?

Mr. Farber: That is right.

Mr. McCrossan: So they are not covered under the clause that would deal with registered pension plans. So what you are picking up in income is the vested pay-outs of the money-purchase Saskatchewan plan. That is the intent, is it not?

Mr. Farber: Both the pay-outs as income and the contributions as deductions.

Mr. McCrossan: One of the things that concerned me about that concept was I did not think a prescribed provincial pension plan necessarily had to follow the 72—13 or 7 rules on plan design, and indeed, the contributions and the formula could be offside. I wondered whether you might well be doing something in grandfathering them or treating them in this way that implicitly exempts them from the October 1986 memorandum, which limits offside plans and says offside plans have to phase out by 1990. By bringing them in in this way, are you effectively taking them out from under the ambit of the changes so that the offside provincial plans do not need to be fixed up? That certainly was not the intention of the Minister at the time he announced that all offside plans had to be brought onside by 1990.

Mr. Farber: While I do not want to speak with a lot of authority on this, I can assure you the intention would certainly not be to allow an offside pension plan to become a registered plan, and I would think we would not—

Mr. McCrossan: What I was getting at is if an offside pension plan requires contributions greater than those provided under an onside pension plan and now you are allowing a contribution to be deductible, that in effect gives *carte blanche* to the provinces to set up offside pension plans and to reopen the loophole we were trying

[Translation]

Si l'on prend ces deux articles, essentiellement l'un exige d'inclure dans le revenu les montants versés aux termes du régime de pensions prescrit, particulièrement dans le cas du Saskatchewan pension plan pour qu'il soit conforme aux autres régimes de pensions. Cela permet également aux contribuables de déduire ses cotisations.

Il y a en outre un certain nombre de changements très techniques contenus dans les amendements à l'étape de la deuxième lecture, à la page 22, dont certains concernent également les modalités de retraite. Le premier changement toutefois concerne l'exclusion d'un régime de pensions provinciale prescrit de l'application de règles d'attribution. L'autre concerne des changements techniques des modalités de retraite, que nous pourrions étudier plus tard quand nous étudierons cet article. A la page 60 on parle encore des modifications consécutives, relatives au régimes de retraite provinciaux prescrits.

M. McCrossan: Le problème ici tient-il au fait que ces régimes de pension établis par les gouvernements provinciaux, à l'intention de leurs employés, ne sont pas enregistrés?

M. Farber: Précisément.

M. McCrossan: Ils ne sont donc pas couverts par cet article qui concerne des régimes de pensions enregistrés. Autrement dit, le seul revenu est le montant des cotisations versées au régime de retraite de la Saskatchewan. C'était bien cela l'intention, n'est-ce pas?

M. Farber: Tant les cotisations que les retenues à la source.

M. McCrossan: Ce qui m'inquiétait, c'est que je m'imaginai qu'un régime de retraite provincial devait nécessairement suivre la règle des 72—13 ou 7 en concevant le régime de pensions, et le fait que les cotisations et la formule pourraient échapper à la règle. Je me demande si vous ne pourriez pas prendre une mesure quelconque pour protéger les droits acquis ou pour en permettre l'exonération implicite par rapport au mémoire d'octobre 1986, qui restreint les régimes non prescrits, lesquels doivent disparaître progressivement d'ici 1990. Si vous les réintégrez par ce moyen, n'est-ce pas soustraire effectivement ce régime à la portée de ces changements, de sorte que les régimes provinciaux non prescrits n'auront plus besoin d'être modifiés? Certes, ce n'était pas ce que le ministre se proposait, lorsqu'il a annoncé que tous les régimes non prescrits devaient être modifiés d'ici 1990.

M. Farber: Sans vouloir être dogmatique à ce sujet, je peux vous assurer que ce n'était pas notre intention de permettre à un tel régime de pouvoir être enregistré, mais je crois que nous ne pourrions pas. . .

M. McCrossan: Ce à quoi je veux en venir, si un régime non prescrit exige des cotisations plus importantes que celles qui sont prévues au titre d'un régime réglementaire, cotisations qui seraient désormais légitimement déductibles, c'est effectivement donner *carte blanche* aux provinces pour établir de tels régimes non

[Texte]

to close down with offside pension plans. In other words, if the required contributions under a provincial pension plan are automatically tax deductible and a provincial pension plan is not subject to the federal requirements for limitations on contributions or benefits, then it is quite possible for provinces to set up for their senior employees, or for any employee group, a tax deferral device that is effectively an unlimited RRSP. Is that not right?

Mr. Farber: What you are saying is technically correct in the absence of our prescription. We would not prescribe an offside plan. Mr. McCrossan, I would have to believe that people within the department have looked at the parameters of the plan, whether it is offside or not, and would not have prescribed it if it were a plan giving benefits in excess of the benefits we would have prescribed under all other pension plans.

• 1640

Mr. McCrossan: I can tell you that the plans for all the provincial MLAs I am aware of, at least Ontario and Quebec, are offside and they are prescribed provincial plans. They exceed the 2% formula.

Mr. Farber: Those are the MP plans. I believe these prescribed provincial pension plans deal with pension plans for civil servants as a whole.

Mr. McCrossan: Are they not prescribed provincial plans as well?

Mr. Farber: I do not believe so. I think they are accepted as plans by Revenue Canada because of the historical norm. Here we are talking about a new plan being devised that we would have to prescribe—

Mr. McCrossan: When Saskatchewan pushed to a money purchase plan—

Mr. Farber: —and we would not prescribe something that was offside.

Mr. McCrossan: What happens for required contributions under offside provincial plans?

Mr. Farber: Do you mean those plans that are in existence already?

Mr. McCrossan: Yes, which are in existence now.

Mr. Farber: I am not sure what happens to them at the moment. I suppose they are in exactly the same ambit as federal government MP plans, which are offside as well.

Mr. McCrossan: The federal government MPs' plan is subject to the 1990 cut-off.

Mr. Farber: That is correct, but I am not sure what is happening with the provincial MLAs. Mr. McCrossan, I

[Traduction]

prescrits et faire réapparaître l'échappatoire que nous avons tenté de combler en abolissant le régime non prescrit. Autrement dit, si les cotisations exigibles au titre d'un régime provincial deviennent fiscalement déductibles, si ce régime provincial n'est pas assujéti aux exigences fédérales concernant la limitation apportée aux cotisations ou aux prestations, alors il serait possible pour les provinces d'établir pour leurs employés les plus anciens, ou pour tout groupe d'employés, un dispositif de report d'impôt qui serait effectivement un régime d'épargne retraite non enregistré, n'est-ce pas?

M. Farber: Sur le plan technique, vous avez raison, en l'absence de toute prescription de notre part. Nous n'allons pas prescrire un régime contraire aux normes. Monsieur McCrossan, j'ose croire que les fonctionnaires du ministère ont examiné les paramètres du régime, soit-il prescrit ou non, et ne vont pas l'autoriser s'il s'agit d'un régime qui accorde des prestations supérieures à celles que nous aurions prescrites en vertu des autres régimes de retraite.

M. McCrossan: Je peux vous assurer que tous les régimes auxquels souscrivent les députés des assemblées législatives provinciales, du moins ceux de l'Ontario et du Québec, que je connais, sont contraires aux normes et non prescrits en vertu des régimes provinciaux. Ils dépassent la formule de 2 p. 100.

M. Farber: Ce sont des régimes pour parlementaires. Je crois que les régimes de retraite prescrits par la province sont ceux que l'on a établis pour tous les fonctionnaires.

M. McCrossan: Ont-ils été aussi prescrits par la province?

M. Farber: Je ne le crois pas. Je crois que Revenu Canada les sanctionne en raison de leur caractère historique. Ce dont nous discutons, c'est un régime nouvellement conçu que nous devons prescrire. . .

M. McCrossan: Lorsque la Saskatchewan a établi ses propres modalités d'achat. . .

M. Farber: . . . et nous n'allons pas prescrire tout régime contraire aux normes.

M. McCrossan: Qu'arrive-t-il des cotisations exigées au titre de régimes provinciaux non prescrits?

M. Farber: Vous voulez parler des régimes déjà en vigueur?

M. McCrossan: Oui, ceux qui sont déjà en vigueur.

M. Farber: J'ignore ce qui va se produire en pareil cas. J'imagine qu'ils sont dans la même catégorie que les régimes destinés aux parlementaires fédéraux, lesquels sont aussi contraires aux normes.

M. McCrossan: Le régime de retraite des parlementaires fédéraux est assujéti à la limite de 1990.

M. Farber: C'est exact, mais j'ignore si c'est aussi le cas pour les régimes des parlementaires provinciaux.

[Text]

am sure you are probably in a better position to answer that than I am.

Mr. Minaker: I still get mine.

Mr. Farber: If you like I can undertake to speak with people in the department who are far more conversant with pension form aspects.

Mr. McCrossan: I would like to know if this provides a route where provincial plans could conceivably continue to run past the limits, and by making them contributory set up RRSPs that will pass the limit envisioned in the tax reform proposals.

Mr. Farber: My answer to that would be no, because we are providing the authority to be registered plans by prescribing them. If they went offside they would quickly become non-prescribed plans. I could only presume that we have the parameters of those plans, and it is why we have agreed to prescribe those plans.

Mr. McCrossan: Can you verify it specifically in terms of the MLA plans and get back to committee?

Mr. Farber: I can probably verify the MLA plans now. I think the answer is no, but with regard to the Saskatchewan pension plan I think the answer is yes. I will speak with the people who deal with this on a daily basis and I will get back to committee.

Clause 12 deals with prescribed stock savings plans. I will ask Mr. Lalonde to deal with that one.

Mr. Lalonde: There are two related provisions: one to paragraph 40(2)(i) and the other to paragraph 53(2)(k) relating to prescribed stock savings plans. These provisions allow provincial governments to give assistance in terms of provincial stock savings plans. The assistance will not reduce the cost base of the shares acquired pursuant to the plan for the purposes of calculating capital gains. For the purposes of calculating capital losses, you cannot increase a capital loss to the extension our—

The Chairman: Do you mean that on these particular plans, provincial assistance does not reduce the base?

Mr. Lalonde: For capital gains purposes, yes. For capital loss purposes it does. It is the same type of thing we do for the prescribed venture capital corporations and the prescribed labour sponsored venture capital corporations.

The Chairman: Why do we do that? On flow-through shares we reduce them.

Mr. Lalonde: We do it in this particular—

• 1645

The Chairman: Why do we do it on these things? These are a venture operation. Why would you not reduce the base for the purpose of calculating capital gains tax by the amount of assistance?

[Translation]

Monsieur McCrossan, je suis sûr que vous êtes probablement plus en mesure que moi de le savoir.

M. Minaker: Je reçois toujours mes prestations.

M. Farber: Si vous le souhaitez, je peux m'engager à consulter les fonctionnaires du ministère, qui s'y connaissent beaucoup mieux que moi en la matière.

M. McCrossan: J'aimerais savoir si c'est un moyen de permettre aux régimes provinciaux de continuer à contourner les normes, pour en faire une sorte de régime d'épargne enregistré, à base de cotisations, qui dépassent les normes envisagées dans le projet de réforme fiscale.

M. Farber: Je dirais que non, car c'est nous qui sanctionnons les régimes enregistrés en les prescrivant. Si ces régimes dépassent les normes, ils seront vite non prescrits. Je ne peux que supposer que nous avons reçu les paramètres de ces régimes, et que nous avons convenu de les prescrire pour cette raison.

M. McCrossan: Pourriez-vous obtenir les renseignements que je vous ai demandés pour ce qui est des régimes des parlementaires provinciaux et les transmettre au Comité?

M. Farber: Il est probable que je peux vérifier la chose dès maintenant. Je crois que la réponse est non, à l'exception du régime de retraite de la Saskatchewan. J'en parlerai à ceux qui étudient ces choses tous les jours, puis je ferai parvenir les renseignements au Comité.

L'article 12 a trait aux régimes prescrits d'épargne-actions. Je vais demander à M. Lalonde de vous en parler.

M. Lalonde: Il y a deux articles qui en font mention, soit l'article 40(2)(i) et l'article 53(2)(k). Ces dispositions permettent aux gouvernements provinciaux de fournir une aide sous forme de régimes provinciaux d'épargne-actions. Cette aide n'entraînera aucune baisse du coût de base des actions acquises en vertu d'un tel régime, lorsqu'il s'agira de calculer les gains en capital. Quant au calcul des pertes en capital, on ne peut accroître une telle perte en vertu du prolongement. . .

Le président: Vous voulez dire que ces régimes provinciaux d'aide ne vont pas diminuer la base?

M. Lalonde: Oui, s'il s'agit de gains ou de pertes en capital. C'est identique à ce que nous faisons pour les sociétés prescrites de capital de risque et pour la société prescrite de capital de risque de travailleurs.

Le président: Pourquoi le fait-on? On fait le contraire pour les actions accréditives.

M. Lalonde: Nous le faisons, dans ce cas particulier. . .

Le président: Pourquoi le faire dans ce cas? C'est un secteur d'innovation. Pourquoi ne pas réduire l'assiette en proportion de l'aide pour le calcul de l'impôt sur les gains en capitaux?

[Texte]

Mr. Lalonde: There is a long answer and there is a short answer. The short answer is that it has to do with the government's policy of encouraging equity investment and of accommodating provincial plans that are designed to achieve that end as well, and of not taxing the particular provincial assistance.

The longer answer has to do with the fact that for the Quebec stock savings plan, where they offer a deduction rather than a credit, the benefit available to the investor as a result of the deduction varies from taxpayer to taxpayer depending on his marginal tax rate, and as a result the law has come to be administered in such a fashion that no cost basis reduction is required in respect to the Quebec stock savings plan. The other provinces—

The Chairman: On an ITC, an investment tax credit, we reduce the cost base of the item purchased, a piece of equipment or something, subject to an investment tax credit. We reduce the capital value by the credit. Why would you all of a sudden, because someone gets a grant from a province, exempt them from capital gains?

Mr. Lalonde: That is correct. We do reduce the base in respect of investment tax credits and that is our general policy. As well, generally we reduce the base in respect of grants, provincial grants in respect of depreciable property—

The Chairman: That is right.

Mr. Lalonde: —and again that is our general policy. This is an exception to the general policy and stems in part from the fact that the provincial assistance in respect to the Quebec stock savings plan, because of the way it is developed as a deduction rather than as a grant, was in effect non-taxable.

To come into the field and institute their own stock savings plans, the other provinces could not do it as a deduction, because under the federal-provincial tax collection agreements they must maintain the same tax base as under the federal tax, with the result that their field of opportunity is limited to credits.

The Chairman: The Quebec deduction is only vis-à-vis Quebec taxes.

Mr. Lalonde: And so too are the Saskatchewan stock savings plan and the Alberta stock savings plan. They are giving tax credits in respect of provincial taxes. All this amendment does is say that the credit they have given against provincial taxes does not reduce the capital base of the asset for federal tax purposes.

The Chairman: So you are saying that the benefit comes strictly from the province and if they want—

Mr. Lalonde: That is correct.

The Chairman: Is everybody happy with that?

[Traduction]

M. Lalonde: La réponse peut être longue ou courte. Lorsqu'elle est courte, cela tient à la politique du gouvernement qui est d'encourager les investissements et de tenir compte des plans provinciaux qui ont le même but, c'est-à-dire de ne pas imposer cette aide provinciale.

Lorsque la réponse est longue, elle tient au fait que dans le cas des régimes d'épargne-actions du Québec, qui offrent une déduction et non pas un crédit, les avantages de la déduction pour l'investisseur varient d'un contribuable à l'autre selon leurs taux d'imposition marginaux, et en conséquence, on a décidé d'administrer la loi en considérant qu'une réduction fondée sur le coût nul est nécessaire dans le cas du régime d'épargne-actions du Québec. Quant aux autres provinces. . .

Le président: Dans le cas d'un crédit d'impôt sur les investissements, on réduit l'assiette coût de l'article acheté, de l'équipement par exemple, sous réserve d'un crédit d'impôt sur les investissements. Autrement dit, la valeur du capital est réduite de la valeur du crédit. Pourquoi exempter ces cas-là et des dispositions relatives aux gains en capitaux pour la simple raison que quelqu'un a obtenu une subvention d'une province?

M. Lalonde: C'est exact. Nous réduisons l'assiette dans le cas des crédits d'impôt sur les investissements; c'est notre politique en règle générale. De la même façon, nous réduisons l'assiette dans le cas des subventions, des subventions provinciales sur les biens dépréciables. . .

Le président: Exactement.

M. Lalonde: . . . encore une fois, c'est notre politique en règle générale. C'est une exception à la politique générale et cela vient en partie du fait que l'aide provinciale dans le cas du régime d'épargne-actions du Québec est en fait non imposable à cause de la façon dont il a évolué, comme déduction et non pas comme subvention.

Si les autres provinces voulaient instaurer leur propre régime d'épargnes-actions, elles ne pourraient pas le faire sous forme de déductions car les ententes de perception fiscale fédérales-provinciales les forcent à conserver la même assiette d'impôt que le fédéral. Autrement dit, leur seule possibilité est dans le secteur des crédits.

Le président: Au Québec, la déduction porte uniquement sur les impôts au Québec.

M. Lalonde: De même que le régime d'épargne-actions boursières de la Saskatchewan, et celui de l'Alberta. Ces provinces accordent des crédits d'impôt sur les impôts provinciaux. Cet amendement prévoit simplement que le crédit sur les impôts provinciaux qu'elles ont accordés ne réduit pas le potentiel de capital d'un bien aux fins de l'impôt fédéral.

Le président: Autrement dit, c'est un avantage exclusivement provincial et si on veut. . .

M. Lalonde: C'est exact.

Le président: Tout le monde est satisfait?

[Text]

Mr. McCrossan: I would like to think about that. When we were looking at flow-through shares and alternatives in the tax reform, we had officials standing up here saying that it was a fundamental principle that you not play with the ACB, that this was fundamental to tax equity, that the ACB was not adjusted to compensate. As you know, we had proposals from NIM that the ACB should be half of the purchase price reflecting the taxes, rather than the 100% reflecting the value of the taxes. People said no, that is entirely improper, you cannot even consider that; anything that plays with the ACB is inequitable.

The Chairman: You simply wind up with the section right here.

Mr. McCrossan: Now it is not quite as much a matter of principle as it used to be, because the ACB and the flow-throughs affect both the federal and provincial shares. The only difference I can see is that in this place you are saying you are willing to make an accommodation to a province. This is no different in principle. It is the converse of the federal government increases disability payments on CPP and the provinces reduce welfare payments, so the grant the federal government gives does not end up in the hands of the disabled because the provinces scoop it right back.

• 1650

You are saying that they have made representations to you that because they have given a grant provincially you should not scoop it back federally. Well surely a little reciprocity around here would be of help. If they feel that they can use increases in federal payments to reduce welfare payments on the provincial side, the same principle is involved, is it not? They are saying the federal government has given some money and therefore that is taxable income or that is income we can use in determining what we pay. And now you are saying that we will be the good guys and anything the provinces give anybody we will say does not count. That is what it comes down to, is it not?

Mr. Lalonde: You are quite right. The proposal does lie in the fact, if you will, of the principle.

The Chairman: It flies in the face of the principle of every equity we have had so far.

Mr. McCrossan: The thing that bothered me about this is the committee has spent a fair amount of time considering this, and as recently as three weeks ago we were convinced by your own officials that if we recommended anything that adjusted the ACB we would be next to destroying the tax system. So we discarded that as a possible vehicle for looking at flow-through shares. And now you are right here saying that the principle is

[Translation]

M. McCrossan: J'aimerais continuer à y réfléchir. Quand nous étudions les actions accréditives et alternatives dans la réforme fiscale, des responsables nous ont dit qu'un principe fondamental voulait qu'on ne pouvait pas toucher aux coûts de base rajustés, que c'était fondamental pour l'équité fiscale, que le coût de base rajusté ne devait pas servir à compenser. Comme vous le savez, NIM nous a dit que le coût de base rajusté devait être équivalent à la moitié du prix d'achat reflétant l'impôt et non pas à l'équivalent de la totalité de la valeur de l'impôt. Certains ont répondu que non, que ce n'était pas du tout normal, qu'on ne pouvait même pas l'envisager. Tout ce qui touche au coût de base rajusté crée des injustices.

Le président: Et on se retrouve avec un passage comme celui-ci.

M. McCrossan: En fait, ce n'est plus autant une question de principe qu'auparavant car le coût de base rajusté et les actions accréditives ont un effet à la fois sur les actions fédérales et les actions provinciales. La seule différence que je peux voir, c'est que vous êtes prêts à accorder un traitement particulier à une province. En principe, cela n'est pas différent. C'est l'inverse de ce qui se produit quand le gouvernement fédéral augmente les paiements d'invalidité du Régime de pensions du Canada et quand les provinces réduisent les paiements de bien-être; la subvention accordée par le gouvernement fédéral n'atteint jamais les invalides car la province l'empêche immédiatement.

Vous dites qu'on vous a dit qu'une subvention provinciale ne devrait pas être empochée par le gouvernement fédéral. Je pense qu'une certaine réciprocité s'impose. S'ils pensent pouvoir utiliser les augmentations des paiements fédéraux pour réduire les paiements de bien-être provinciaux, c'est le même principe qui entre en ligne de compte, n'est-ce pas? Ils prétendent que le gouvernement fédéral a accordé de l'argent, que par conséquent c'est un revenu imposable, ou du moins un revenu qui peut être utilisé pour déterminer ce qu'il faut payer. Maintenant, vous dites que c'est nous qui avons raison, et que tout ce que les provinces pourraient accorder à quelqu'un ne compte pas. Finalement, cela revient à ça, n'est-ce pas?

M. Lalonde: Vous avez parfaitement raison. En effet, c'est une proposition qui tient à une affaire de principe.

Le président: Et qui va à l'encontre de tous nos principes jusqu'à maintenant.

M. McCrossan: Ce qui me trouble, c'est que le Comité a consacré beaucoup de temps à cet aspect-là, et il y a trois semaines encore, nos propres collaborateurs nous ont convaincus qu'en recommandant de quelconques ajustements au coût de base rajusté nous détruirions le système fiscal. Nous avons donc écarté cette possibilité dans le cas des actions accréditives. Maintenant, vous nous dites que le principe n'est pas aussi solide que vous l'aviez

[Texte]

not quite as strong as you presented it when you were witnesses before the committee.

Mr. Lalonde: I think you are quite right to be convinced on that issue. The extenuating circumstance in this particular case is the fact that Quebec can do it because they can do a deduction and under the existing tax system they can achieve an incentive to the investors without a cost base reduction.

The Chairman: I know, but we are talking about that they can reduce their provincial taxes if they want to. And every province can decide: if it wants to give back money to its taxpayer it can do it.

Mr. Lalonde: Well that is a particular issue, Mr. Chairman. The other provinces cannot offer a deduction to reduce their base, because under the Federal-Provincial Tax Collection Agreement they must keep the same base. The only way they can give an incentive to match the Quebec incentive is to do one by way of a tax credit. They felt it was unfair that Quebec could achieve that result without a cost base reduction while they could not. While we must still maintain that the principle is correct, that a cost base adjustment would be appropriate, the—

The Chairman: Ontario does something on their small business venture corporations. What they do is they send a cheque for \$30 to the shareholder who put his \$100 up in a venture capital thing.

Mr. Lalonde: That is correct, and it is treated in exactly the same way, as a matter of fact under the same provision, as the proposed amendments here for the—

The Chairman: Well, our discussion when we got into this some time ago on a previous act was that you would organize things to make sure the cost base of the person's shares was reduced by the amount of grant or subsidy he received. So when a person invested in an Ontario venture capital operation and got back from the Ontario government a \$30 cheque for every \$100 put up, you reduced the value of their shares for the cost base by the \$30. Do you not do that?

Mr. Lalonde: I believe the Ontario Venture Capital Assistance Act is a prescribed act for the purposes of this provision, which also says that venture capital assistance does not reduce the base for capital gains purposes but only for capital loss purposes.

The Chairman: Okay, I see. I want to think about it. Can we go on to the next one, prescribed tax treaty?

Mr. Farber: Mr. Chairman, the principal clause there is clause 42. I will ask Mr. Conway to deal with that clause, which was the subject of a press release we issued earlier in the year.

Mr. Wally Conway (Senior Official, Corporations and Capital Gains Legislation Division, Policy and Legislation, Department of Finance): In order to overcome double

[Traduction]

dit la dernière fois que vous avez témoigné devant ce Comité.

M. Lalonde: Dans ce cas, vous avez parfaitement raison d'être convaincu. Il y a des circonstances atténuantes car le Québec peut se permettre de le faire grâce à une déduction et, dans le cadre du système fiscal actuel, ils peuvent accorder des encouragements aux investisseurs sans réduire le coût de base.

Le président: Je sais, mais nous disons aussi qu'ils peuvent réduire leurs impôts provinciaux s'ils le souhaitent. Et toutes les provinces peuvent décider de rembourser de l'argent à leurs contribuables si elles le désirent.

M. Lalonde: Monsieur le président, c'est un cas particulier. Les autres provinces ne peuvent pas offrir une déduction pour réduire leur coût de base car, aux termes de l'accord de perception fiscale fédéral-provincial, elles sont forcées de garder la même base. Si elles veulent accorder un encouragement comparable à celui du Québec, la seule solution est un crédit d'impôt. Nous considérons qu'il est injuste que le Québec ait cette possibilité si les autres provinces ne l'ont pas. Il n'empêche que ce principe est exact, que le coût de base ajusté serait... .

Le président: L'Ontario fait quelque chose pour les petites entreprises qui innovent. En effet, dans cette province, on envoie un chèque de 30\$ aux actionnaires qui investissent 100\$ dans un secteur d'innovation.

M. Lalonde: C'est exact, et en fait, cela relève exactement des mêmes dispositions que ces projets d'amendements sur... .

Le président: Lorsque nous nous sommes intéressés à cette question au moment de l'étude d'une autre loi, nous avons dit qu'il fallait s'arranger pour que le coût de base des actions d'une personne soit réduit en proportion de la subvention ou subsidie reçu. Autrement dit, lorsqu'une personne investit dans une entreprise innovatrice en Ontario, lorsqu'elle reçoit un chèque de 30\$ pour 100\$ d'investi, vous réduisez la valeur de leurs actions de 30\$ aux fins du coût de base. C'est bien ça?

M. Lalonde: Je crois que la Loi ontarienne d'aide aux investissements dans un secteur d'innovation est prescrite aux fins de cette disposition qui prévoit également que l'aide au capital d'innovation ne réduit pas la base aux fins des gains en capitaux, mais seulement aux fins des pertes de capitaux.

Le président: D'accord, je vois. Il faut que j'y réfléchisse. Est-ce que nous pouvons passer au point suivant, la disposition relative à la convention fiscale?

M. Farber: Monsieur le président, le principal article, c'est l'article 42. Je vais demander à M. Conway de traiter de cet article qui a fait l'objet d'un communiqué de presse que nous avons publié il y a quelque temps.

M. Wally Conway (haut-fonctionnaire, Division de la législation sur les sociétés et les gains en capitaux, Politique et législation, ministère des Finances): Pour

[Text]

taxation a number of proposed international tax treaties have provisions that basically where a taxpayer is deemed to have disposed of a property, say in Canada, but is not deemed to have disposed of it in his country of residence, say the U.S., Canada can agree to defer the recognition of the tax until which time he actually disposes of the property, and in so doing avoid double taxation. For example, if Canada insisted that this position be recognized now, there would be Canadian tax paid, but no U.S. tax paid, and therefore the U.S. resident could not use the Canadian taxes as a credit against his U.S. taxes. What the treaty says is that where Canada agrees, then this Canadian tax can be deferred until which time the income is taxed in the U.S. All this does is accommodates that treaty.

• 1655

The Chairman: Now, receipt of things mailed.

Mr. Farber: Before we get there, Mr. Chairman—

The Chairman: Oh, yes, this is the place where we disallow Canada Post.

Mr. Farber: Before we get to Canada Post, Mr. Chairman, on page 88 of the second reading amendments we have a minor consequential amendment referring to a prescribed class of property.

The Chairman: Prescribed class. This refers to the prescribed stock savings plans, does it not, or the treaty?

Mr. Farber: No. It is at the bottom of page 88, Mr. Chairman. The reference there is "of a prescribed class". That prescribed class is a prescribed class of property under our depreciation system. It is just a technical reference.

The Chairman: Now clause 69. How about you explaining what you are going to do here, and then we can tell you what we think.

Mr. Farber: Mr. Chairman, those amounts that are deducted or withheld under the act under this proposal will have to be received by the Receiver General rather than be deemed to be received the day they are mailed, and other remittances will be considered to have been received on the date of its mailing, but the item must be sent by first class mail or its equivalent.

What was happening, Mr. Chairman, as I understand it, is items posted by Canada Post in remote parts of the country could take anywhere up to two weeks to—

The Chairman: They do that in Mississauga regularly.

Mr. Farber: That is right. They send them up to the Yukon or some such place and bring it back to Toronto. That is what this is really trying to address.

[Translation]

éviter la double imposition, un certain nombre de futurs traités fiscaux internationaux ont des dispositions qui prévoient qu'un contribuable qui s'est défait d'un bien, par exemple au Canada, mais qui ne s'est pas défait de ce bien dans son pays de résidence, par exemple, les États-Unis, peut obtenir du Canada que les impôts dus soient reportés jusqu'à ce qu'ils se défassent effectivement du bien en question, ce qui évite une double imposition. Par exemple, si le Canada insistait pour que cette position soit maintenant reconnue, un impôt canadien serait payable, mais non pas un impôt américain; par conséquent, le résident américain ne pourrait utiliser et les impôts payés au Canada comme un crédit sur les impôts dus aux États-Unis. Aux termes de la convention, lorsque le Canada l'accepte, ces impôts canadiens peuvent être reportés jusqu'au moment où son revenu est imposable aux États-Unis. Cette disposition sert seulement à appliquer les dispositions du traité.

Le président: Nous passons maintenant au titre: Date de réception.

M. Farber: Mais auparavant, monsieur le président. . .

Le président: Ah oui, il y a le passage où nous disqualifions Postes Canada.

M. Farber: Avant d'en arriver à Postes Canada, monsieur le président, à la page 88 des amendements en seconde lecture, nous avons un amendement mineur qui porte sur une catégorie de biens prescrite.

Le président: Une catégorie prescrite. Il s'agit des régimes d'épargne-actions, n'est-ce pas, ou du traité?

M. Farber: Non. C'est en bas de la page 88, monsieur le président, il y est question de «une catégorie prescrite». Cette catégorie prescrite est une catégorie de biens prescrite aux termes de notre système de dépréciation. C'est une simple référence technique.

Le président: Passons maintenant à l'article 69. Commencez donc par nous expliquer à quoi cela sert; nous vous dirons ensuite ce que nous en pensons.

M. Farber: Monsieur le président, les sommes qui sont déduites ou retenues en vertu de la Loi aux termes de cette proposition devront être reçues par le receveur général, et non pas considérées comme ayant été reçues le jour où elles ont été postées; les autres envois seront considérés comme ayant été reçus le jour où ils ont été postés, mais dans ce cas particulier, on exige que le courrier soit expédié en première classe ou son équivalent.

Monsieur le président, si j'ai bien compris, les articles postés par Postes Canada dans les régions isolées du pays pouvaient jusqu'à présent mettre deux semaines pour. . .

Le président: A Mississauga, c'est très fréquent.

M. Farber: C'est exact. On envoie des articles du Yukon, ou dans des endroits comme cela, et cela revient à Toronto. C'est ce que nous essayons de régler.

[Texte]

The Chairman: The point of the matter is the Government of Canada is responsible for the mail system, and it seems rather strange that we should be considering a section of the act that penalizes citizens because the Government of Canada cannot run a mail system. Why would you do that? By the way, they are not allowed to go to a courier unless they pay four times what would be the normal rate. They're really prohibited from going to a reasonably priced courier.

Mr. Farber: I understand what you are getting at, Mr. Chairman. One, I guess, has to put it in the context of what is being remitted. I would not view this as a penalty kind of provision. What we are talking about are trust funds that an employer has withheld from the—

The Chairman: We dealt with this thing in our tax reform report. I do not know whether you have seen our recommendations. We suggested that members of Canadian Payments Association be deemed revenue agents for a receipt of payments to Revenue Canada and that the Government of Canada look after reimbursing them. We would like to see an amendment to these clauses to provide that the payment is to be made at a bank or a trust company.

• 1700

Mr. Farber: I will check this out, Mr. Chairman, but I believe financial institutions are authorized to receive payments.

The Chairman: Our view is that the receipt by the financial institution would be deemed a receipt by the Minister of National Revenue, and that they would be specially designated in the statute as the people who receive it, and that the customer or the payer would not be penalized, charged, or anything for paying to a member of the Canadian Payments Association.

Mr. Farber: Mr. Chairman, I believe that is the situation right now. The minute the payments on account of trust funds are placed with a financial institution, they are deemed to have been received by the Receiver General. I will confirm that for you tomorrow. I am quite sure that is the case right now.

The Chairman: The trouble is that this is about mailing. I was wondering if you wanted to go farther and require them to be paid there.

Mr. Farber: Oh, I see what you are saying. That may be difficult in certain remote areas, where one cannot make the payment to a financial institution. The problem with the mailing situation was one where it took, on occasion, an inordinate amount of time. What employers could well do is have the remittances postmarked midnight the 15th and they are deemed to be received immediately, whereas they have had the use of those funds from the time that they were deducted from particular employees, or whatever the situation was. That is one aspect of the mailing situation. I think it may produce a hardship for

[Traduction]

Le président: Le fait est que le gouvernement du Canada est responsable du système postal, et il me semble étrange de pénaliser les citoyens dans cette loi parce que le gouvernement du Canada ne réussit pas à contrôler son système postal. Pourquoi le faire? Soit dit en passant, on ne les autorise pas à expédier par un service de messagers à moins de payer quatre fois le tarif normal. En fait, on les empêche de s'adresser à un service de messagers abordable.

M. Farber: Monsieur le président, je comprends vos observations. Pour commencer, il faut considérer la nature de l'envoi. A mon sens, ces dispositions ne sont pas une pénalité. Nous parlons ici de fonds de fiducie qu'un employé a retenu. . .

Le président: Nous avons déjà discuté de cet aspect dans notre rapport sur la réforme fiscale. Je ne sais pas si vous avez vu nos recommandations. Nous avons suggéré que les membres de l'Association canadienne des paiements soient considérés comme des agents de revenu et puissent percevoir pour le compte de Revenu Canada, le gouvernement du Canada les remboursant ensuite. Nous aimerions que ces articles soient modifiés pour que ces versements puissent être effectués dans une banque ou une compagnie de fiducie.

M. Farber: Je vérifierai, monsieur le président, mais je crois que les institutions financières sont autorisées à recevoir des paiements.

Le président: À notre avis, un paiement reçu par une institution financière serait considéré comme un paiement reçu par le ministre du Revenu national et, aux termes des statuts, il serait désigné receveur, ce qui éviterait de pénaliser un client qui choisirait de faire son versement à un membre de l'Association canadienne des paiements.

M. Farber: Monsieur le président, je crois que c'est déjà la situation. Dès que les versements sur des fonds de fiducie sont effectués auprès d'une institution financière, ils sont considérés comme ayant été reçus par le receveur général. Je vous confirmerai cela demain, mais je suis presque sûr que c'est le cas.

Le président: Le problème, ce sont les expéditions par la poste. Est-ce que vous souhaiteriez aller plus loin et exiger qu'ils soient payés là-bas.

M. Farber: Oh, je vois ce que vous voulez dire. Dans des régions isolées, cela pourrait être assez difficile lorsqu'on ne peut pas faire un versement dans une institution financière. Le problème de la poste, c'est que parfois cela prend beaucoup trop de temps. Les employeurs pourraient fort bien faire exprès de faire oblitérer le timbre à minuit le 15 et les versements seraient considérés comme ayant été reçus; mais avant cela, ils ont pu en disposer à partir du moment où les déductions des employés ont été faites, selon les situations. C'est un aspect des envois par la poste. Pour certains

[Text]

certain employers to be forced to actually remit to a financial institution. There may not be one in the area.

The Chairman: It is an awful hardship to give a guy the Canada Post treatment and then say if he does not get the receipt in in time... particularly if the payments are moved up to every week or two weeks, as is contemplated in the white paper.

Mr. Farber: For most small employers the movement up should not produce any big problem. We are only talking about amounts in excess of \$15,000 under the accelerated remittances. For most large employers I would suppose that the nearest agent to receive remittances may well be the financial institution, and they have always had the option of making payments at a financial institution. In fact, I am also given to understand that most source deductions are remitted to financial institutions as opposed to the mail.

The Chairman: That is why I think it ought to be in the statute. Specifically designating them so that if you did not like the Royal Bank you could go to the Bank of Nova Scotia, pay your remittance there. You might not even deal with the Bank of Nova Scotia, but you could pay it there if you wanted to.

Mr. Farber: Mr. Chairman, I believe that is the situation right now. What I hear you saying is that they should be mandated to remit their source deductions at a bank and that may cause problems in certain situation.

Mr. McCrossan: It was not a mandate.

The Chairman: No, there is no mandating in our report. What we are concerned about is that banks have been regularly doing this for their customers, but not regularly doing it for people who are not their customers. As I say, Mr. Farber, if you decided to go to a bank that you did not normally deal with and ask them to remit your source deduction, guess what? They are not going to do it for you.

Mr. Farber: They may not do it, Mr. Chairman, for maybe valid banking reasons. They may not know whether your cheque is any good or not. But certainly I would think an employer should have a right to remit his source deductions at his local district taxation office if he so chooses and not go to a bank. He may also use the mail, if he chooses, by having it mailed in time to be received by the Receiver General. He does have that option. It does not have to be mailed on the very last day.

The Chairman: What would you say would be a fair length of time?

Mr. Farber: I would not want to hazard a guess.

The Chairman: Six weeks or two months?

[Translation]

employeurs, la nécessité de faire le versement dans une institution financière peut poser des problèmes. Il n'y en a pas toujours dans la région.

Le président: Mais c'est une grosse difficulté de forcer les gens à subir les aléas de Postes Canada et de prévoir que s'il ne reçoit pas le reçu à temps... surtout si on décide d'exiger les paiements toutes les semaines ou toutes les deux semaines comme le recommande le Livre blanc.

M. Farber: La plupart des petits employeurs ne devraient pas avoir tellement de problèmes. C'est seulement dans le cas des versements accélérés que les sommes dépassaient 15,000\$. Pour la plupart des gros employeurs, j'imagine que le plus pratique doit être de faire les versements dans des institutions financières, ce qui est toujours une option. En fait, je crois comprendre que la plupart des déductions à la source sont versées à des institutions financières et non pas confiées à la poste.

Le président: C'est la raison pour laquelle cela devrait figurer dans les statuts. Il faudrait désigner cela pour qu'une personne qui n'aime pas la Banque Royale puisse s'adresser à la Banque de Nouvelle-Écosse pour y faire ses versements. Même si vous n'avez pas de compte à la Banque de Nouvelle-Écosse, il devrait être possible d'y effectuer les versements.

M. Farber: Monsieur le président, je crois que c'est déjà le cas. Vous dites qu'on devrait accorder aux gens un mandat pour qu'ils fassent leurs versements de déductions à la source dans une banque, ce qui risque de causer des problèmes dans certaines situations.

M. McCrossan: Il n'est pas question de mandat.

Le président: Il n'est pas question de mandat dans notre rapport. Ce qui nous préoccupe, c'est que les banques acceptent volontiers de faire cela pour leurs propres clients, mais non pas pour les autres. Comme je l'ai dit, monsieur Farber, si vous vous adressez à une banque avec laquelle vous ne faites pas affaire, si vous demandez à remettre vos déductions à la source, devinez ce qui se passe? Ils vont refuser.

M. Farber: Peut-être refuseront-ils, monsieur le président, pour d'excellentes raisons de nature bancaire. Elles ne savent pas si votre chèque est approvisionné. En tout cas, un employeur devrait pouvoir remettre ses déductions à la source au bureau de district de l'Impôt s'il le souhaite et ne pas s'adresser à une banque. Il peut également faire ses versements par le courrier s'il le souhaite, et le faire assez tôt pour que le receveur général le reçoive à temps. Il a cette possibilité. Il n'est pas forcé de faire le versement le dernier jour.

Le président: À votre avis, qu'est-ce qui serait un délai raisonnable?

M. Farber: Je préfère ne pas donner d'opinion là-dessus.

Le président: Six semaines ou deux mois?

[Texte]

Mr. Farber: Two months may be safe, although I cannot hazard a guess. This is why this change has come about.

Mr. McCrossan: You are not proposing to change the rule for individuals like me, who invariably fill out their income tax on April 30 and rush it into the post office. Is that still going to be deemed paid on April 30? That is not an employer-source remittance. It is not a source deduction. That is my year-end balance. I just want to make sure what the clause applies to, because more than one or two Canadians have the habit of filling in their income tax return on the last day, and I would not be too happy with getting nicked with interest if that were the case.

• 1705

Mr. Farber: Those are not source deductions. The receipt issue deals with source deductions. All other mailings by first-class mail or its equivalent would contemplate a tax return being postmarked at the post office prior to midnight.

The Chairman: Are you saying that this section only applies to source deductions?

Mr. Farber: Yes. It goes on to deal with other types of remittances, and other types of remittances must be sent by first-class mail or its equivalent. Therefore, in Mr. McCrossan's example of a tax return being postmarked prior to midnight of April 30, it can continue to be done so, because that would be first-class mail. So that has not changed.

The Chairman: You can take a look at that question of possibly prescribing the banks so it is clear that there is a requirement by a bank to take the income tax remittance.

Mr. Farber: I can check that, but I am not sure we have the authority to require a bank to accept a source deduction remittance. They do it as a matter of course right now—

The Chairman: For their customers they do.

Mr. Farber: —for their customers, but how can one require them to deal with people they do not know?

The Chairman: One of the things, Mr. Farber, is we move closer to demanding the payment of tax more quickly. Banks that have been handling payroll for customers have been relying on the use of that free balance, because they have in fact enjoyed the free balance of the trust funds for as much as 45 days. As we move to fast remittances, they are not going to have those free balances at all. In effect, they are likely then to start charging for remitting the tax.

What I am asking and suggesting and saying is that the act ought to provide that the quid pro quo for the fast payment is the government mandate that the banks collect for the government tax without cost to the taxpayer. After all, if we are demanding fast remittances then we ought to make it exceptionally easy for fast remittances to be made.

[Traduction]

M. Farber: Deux mois, c'est peut-être le plus sûr, mais je ne peux pas faire de supposition. C'est la raison de cette modification.

M. McCrossan: Vous n'avez pas l'intention de changer les règles pour les particuliers comme moi qui, invariablement, remplissent leur déclaration d'impôt le 30 avril et se précipitent à la poste. Cela sera toujours réputé payé le 30 avril? Il ne s'agit pas d'une remise de la part de l'employeur ou d'une déduction à la source. C'est le solde à la fin de l'année. Je veux savoir exactement à quoi s'applique cette disposition car plus d'un Canadien a l'habitude de remplir sa déclaration d'impôt le dernier jour, et je ne voudrais pas avoir à verser de l'intérêt dans ce cas.

M. Farber: Il ne s'agit pas là de retenues à la source. La réception s'applique aux retenues à la source. Pour tout courrier de première classe ou l'équivalent, la déclaration d'impôt estampillée par le bureau de poste avant minuit, fait foi.

Le président: Voulez-vous dire que cet article ne s'applique qu'aux retenues à source?

M. Farber: Oui. Il aborde ensuite d'autres genres des remises qui doivent être envoyées par courrier première classe ou l'équivalent. Par conséquent, une déclaration d'impôt estampillée avant minuit le 30 avril peut toujours l'être, selon l'exemple de M. McCrossan, parce qu'il s'agit de courrier de première classe. Il n'y a donc pas de changement à cet égard.

Le président: Vous pourriez peut-être envisager d'exiger des banques qu'elles acceptent ces paiements d'impôt.

M. Farber: Je peux vérifier, mais je ne suis pas sûr que nous ayons le pouvoir de le faire. Elles le font déjà d'elles-mêmes. . .

Le président: Pour leurs clients.

M. Farber: . . . Pour leurs clients, mais comment peut-on les obliger à traiter avec des inconnus?

Le président: Nous exigerons bientôt que cet impôt soit remis plus rapidement. Les banques qui s'occupent du paiement des salaires pour certains de leurs clients ont profité de ce solde exempté des fonds en fiducie pendant 45 jours. Si les remises sont accélérées, ces soldes disparaîtront. En fait, elles vont probablement commencer à exiger des frais pour la remise de l'impôt.

Je dis simplement que la loi devrait exiger en échange de ce paiement accéléré que les banques perçoivent cet impôt sans que cela coûte quoi que ce soit au contribuable. Après tout, si nous exigeons que les remises soient faites rapidement, nous devrions faciliter le processus.

[Text]

Mr. Farber: I understand where you are coming from. The difficulty I see with that is first that is not a tax kind of a provision. I can understand asking the banking system to accept Government of Canada cheques without charge; I find it difficult to ask a banking institution to accept a cheque from Tom Jones on the street, whom he has never heard of nor seen, in respect of source deductions. If the cheque is not honoured by that person's own bank, then who will that institution go after? I see some difficulty in mandating a bank to accept anybody's cheque.

The Chairman: They may be able to recover the money from their customer, which would be then, under a contract arrangement, the Receiver General of Canada.

Mr. Farber: They already accept cheques from their own customers. You have acknowledged that, as well. We are talking about accepting cheques from people they do not do business with.

The Chairman: What I am talking about is creating in the Income Tax Act a provision whereby people can in fact pay their income tax to any member of the Canadian Payments Association and making the members of the Canadian Payments Association the agents for the government as opposed to just private bankers.

• 1710

What I am saying is if we are going to go for faster and faster collection of tax remittances, and if we are now not prepared to trust the mail system, then we really had better offer something in exchange.

Mr. Farber: Mr. Chairman, I understand your desire to speed up the system, and I think we are very sympathetic to that, which is why this provision is here, as well as, under tax reform, even further acceleration of remittances of source deductions. I do not, however, see a mechanism whereby under the Income Tax Act we could force the banks to accept payments from people other than the people they are already accepting payments from, their customers. Maybe the proper place to do that is under the Bank Act, or something of that nature, to mandate financial institutions to accept all kinds of payments. I am not sure the Income Tax Act is the proper vehicle for that.

The Chairman: If the Income Tax Act is where we are going to deal with Canada Post, I guess we could deal with the banks there too. Will you take a look at that?

Mr. Farber: Yes, Mr. Chairman.

The Chairman: I want to move on to complete retirement compensation arrangements.

Mr. Farber: Mr. Chairman, I have no objection to doing that. I think, though, retirement compensation arrangements have quite a number of clauses, and a long list of consequential clauses associated with them, as well

[Translation]

M. Farber: Je comprends votre point de vue. Le problème est qu'il ne s'agit pas ici d'une disposition fiscale. Je comprends qu'on puisse demander aux banques d'accepter les chèques du gouvernement du Canada sans frais; mais il serait difficile de leur demander d'accepter un chèque d'un parfait inconnu en ce qui a trait aux retenues à la source. Si ce chèque n'est pas honoré par la propre banque de cette personne, à qui l'institution en question pourra-t-elle s'adresser? Je trouve difficile de demander aux banques d'accepter les chèques de n'importe qui.

Le président: Elles pourraient peut-être récupérer cet argent de leur client qui serait le receveur général du Canada aux termes d'un contrat.

M. Farber: Elles acceptent déjà ces chèques de leurs propres clients. Il faut aussi le reconnaître. Nous parlons d'accepter des chèques de personnes avec lesquelles elles ne font pas affaire.

Le président: Je parle d'adopter une disposition qui permettrait aux gens de payer leur impôt sur le revenu à tout membre de l'Association canadienne des paiements et de faire de ces derniers des agents du gouvernement plutôt que de simples banquiers.

Si nous voulons vraiment accélérer la perception des impôts et si nous sommes disposés maintenant à faire confiance à la poste, nous ferions mieux d'offrir quelque chose en échange.

M. Farber: Monsieur le président, je comprends votre désir d'accélérer le système et je me range entièrement derrière vous sur ce point, qui est la raison même d'être de cette disposition. La réforme fiscale vise également à accélérer la perception des retenues à la source. Je ne vois toutefois pas comment nous parviendrions, dans le cadre de la Loi de l'impôt sur le revenu, à obliger les banques à accepter des paiements autres que de leurs clients, à savoir ceux dont ils acceptent déjà des paiements. Il faudrait peut-être faire intervenir pour cela la Loi sur les banques, par exemple, pour obliger les institutions financières à accepter toutes sortes de paiements, mais la Loi de l'impôt sur le revenu me paraît pas l'instrument désigné à cet effet.

Le président: Si nous nous servons de la Loi de l'impôt sur le revenu pour la Société canadienne des postes, pourquoi ne pourrions-nous également nous en servir pour les banques? Est-ce que vous voudriez bien examiner cette possibilité?

M. Farber: Certainement, monsieur le président.

Le président: Je voudrais maintenant passer aux indemnisations de retraite.

M. Farber: Je n'y vois pas d'objection, monsieur le président, mais ces dispositions d'indemnisation de retraite comportent un grand nombre d'articles ainsi qu'une longue liste de dispositions corrélatives et

[*Texte*]

as a number of second-reading amendments that are also relevant here. We do not mind jumping into this at this time. I guess I would like to ask you how much time you think—

The Chairman: In that event, I will take your advice and we will adjourn the meeting until tomorrow, when we will start with retirement compensation arrangements. The meeting is adjourned.

[*Traduction*]

plusieurs amendements de seconde lecture qui sont également pertinents. Nous n'avons pas d'objection à aborder cette question à cette heure, mais j'aimerais vous demander combien de temps vous comptez. . .

Le président: En ce cas, je suivrai votre conseil et nous allons lever la séance. Nous la reprendrons demain et commencerons par les dispositions d'indemnisation de retraite. La séance est levée.



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WITNESSES

*From the Tax Policy and Legislation Branch of the
Department of Finance:*

Len Farber, Director, Tax Policy and Legislation;

Gerry Lalonde, Senior Tax Policy Officer;

Dan MacIntosh, Senior Tax Policy Officer;

Carol Muirhead, Senior Tax Policy Officer;

Wally Conway, Senior Tax Policy Officer.

TÉMOINS

*De la Direction de la politique et de la législation de
l'impôt du ministère des Finances:*

Len Farber, directeur, Politique et législation de
l'impôt;

Gerry Lalonde, agent supérieur, Politique de l'impôt;

Dan MacIntosh, agent supérieur, Politique de l'impôt;

Carol Muirhead, agent supérieur, Politique de l'impôt;

Wally Conway, agent supérieur, Politique de l'impôt.

HOUSE OF COMMONS

Issue No. 127

Thursday, November 19, 1987

Chairman: Don Blenkarn

CHAMBRE DES COMMUNES

Fascicule n° 127

Le jeudi 19 novembre 1987

Président: Don Blenkarn

*Minutes of Proceedings and Evidence of the
Standing Committee on*

Finance and Economic Affairs

*Procès-verbaux et témoignages du Comité
permanent des*

Finances et des affaires économiques

RESPECTING:

Bill C-64, An Act to amend the Income Tax Act, a related Act, the Canada Pension Plan and the Unemployment Insurance Act, 1971

Future business

CONCERNANT:

Projet de loi C-64, Loi modifiant la Loi de l'impôt sur le revenu et la législation connexe ainsi que le Régime de pensions du Canada et la Loi de 1971 sur l'assurance-chômage

Travaux futurs

WITNESSES:

(See back cover)

TÉMOINS:

(Voir à l'endos)



Second Session of the Thirty-third Parliament,
1986-87

Deuxième session de la trente-troisième législature,
1986-1987

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(Quorum 7)

Le greffier du Comité
Marie Carrière

MINUTES OF PROCEEDINGS

THURSDAY, NOVEMBER 19, 1987
(194)

[Text]

The Standing Committee on Finance and Economic Affairs met at 10:08 o'clock a.m. this day, in Room 269, West Block, the Chairman, Don Blenkarn, presiding.

Members of the Committee present: Don Blenkarn, Mary Collins, Raymond Garneau, Robert Layton, George Minaker, and Norman Warner.

In attendance: From the Committee's Research Staff: H. Bert Waslander, Research Director. *From the Research Branch of the Library of Parliament:* Terrence J. Thomas, Research Officer.

Witnesses: From the Tax Policy and Legislation Branch of the Department of Finance: Len Farber, Director, Tax Policy and Legislation; John Fuke, Associate to the Director General, Legislative Affairs Directorate, Revenue Canada; Harold White, Legislative Counsel; Carol Muirhead, Senior Tax Policy Officer; Dan MacIntosh, Senior Tax Policy Officer; Wally Conway, Senior Tax Policy Officer.

The Committee resumed consideration of its Order of Reference dated Tuesday, June 30, 1987 in relation to Bill C-64, an Act to amend the Income Tax Act, a related Act, the Canada Pension Plan and the Unemployment Insurance Act, 1971. (*See Minutes of Proceedings and Evidence, Wednesday, August 12, 1987, Issue No. 78.*)

The Committee resumed consideration of Clause 1.

The witnesses answered questions.

At 11:16 o'clock a.m., the Committee adjourned to the call of the Chair.

Marie Carrière
Clerk of the Committee

PROCÈS-VERBAL

LE JEUDI 19 NOVEMBRE 1987
(194)

[Traduction]

Le Comité permanent des finances et des affaires économiques se réunit, aujourd'hui à 10 h 08, dans la pièce 269 de l'Édifice de l'Ouest, sous la présidence de Don Blenkarn, (*président*).

Membres du Comité présents: Don Blenkarn, Mary Collins, Raymond Garneau, Robert Layton, George Minaker et Norman Warner.

Aussi présents: Du personnel de recherche du Comité: H. Bert Waslander, directeur de la recherche. *Du Service de recherche de la Bibliothèque du Parlement:* Terrence J. Thomas, attaché de recherche.

Témoins: De la Direction de la politique et de la législation de l'impôt du ministère des Finances: Len Farber, directeur, Politique et législation de l'impôt; John Fuke, associé du directeur général, Direction des affaires législatives, Revenu Canada; Harold White, conseiller législatif; Carol Muirhead, agent supérieur, Politique de l'impôt; Dan MacIntosh, agent supérieur, Politique de l'impôt; Wally Conway, agent supérieur, Politique de l'impôt.

Le Comité examine de nouveau son ordre de renvoi du mardi 30 juin 1987 relatif au projet de loi C-64, Loi modifiant la Loi de l'impôt sur le revenu et la législation connexe, ainsi que le Régime de pensions du Canada et la Loi de 1971 sur l'assurance-chômage. (*Voir Procès-verbaux et témoignages du mercredi 12 août 1987, fascicule n° 78.*)

Le Comité examine de nouveau l'article 1.

Les témoins répondent aux questions.

À 11 h 16, le Comité s'ajourne jusqu'à nouvelle convocation du président.

Le greffier du Comité
Marie Carrière

EVIDENCE

[Recorded by *Electronic Apparatus*]

[Texte]

Thursday, November 19, 1987

• 1004

The Chairman: We are resuming consideration of Bill C-64, an act to amend the Income Tax Act and other related statutes. We have before us all of the witnesses from the department, led by Len Farber. I think we will just proceed. I think yesterday, Mr. Farber, we were up to retirement compensation arrangements.

• 1005

Mr. Len Farber (Director, Legislation Division, Tax Policy and Legislation Branch, Department of Finance): That is right, Mr. Chairman. We adjourned at retirement compensation arrangements. There are quite a number of clauses. The principal clauses dealing with retirement compensation arrangements start at clauses 7, 17, 50.(2) and 62. I will ask my colleague to give you an overview of what the retirement compensation arrangement amendments are all about. Then we will deal with a number of second reading or additional motions you have before you.

Mr. John Fuke (Associate to the Director General, Legislative Affairs Directorate, Department of National Revenue): Mr. Chairman, a retirement compensation arrangement is the description of something that exists already and is an attempt to subject them to appropriate tax treatment. It is a plan or arrangement under which an employer makes payments to another person, whom we call a custodian, in order that benefits may be paid to an employee or any other person after the employee retires or otherwise severs his employment with the employer.

It is similar to a pension plan but is not registered. An unregistered pension plan is one description of this. In the absence of the definition and the treatment of these RCAs, these arrangements would ordinarily be treated as employee benefit plans.

The bill provides that employers get a deduction for contributions to these plans, but that there is a 50% refundable tax levied on the plan at the time contributions are made. This tax is refunded as payments are made out of the plan. When payments come out, they are taxed in the hands of the employee who receives them.

The Chairman: Why is there a 50% refundable tax in view of the proposed tax rates in the white paper?

Mr. Fuke: This is taking effect, sir, for this year, where the 50% rate approximates the top personal rate of tax.

TÉMOIGNAGES

[Enregistrement électronique]

[Traduction]

Le jeudi 19 novembre 1987

Le président: Nous poursuivons l'examen du projet de loi C-64, Loi modifiant la Loi de l'impôt sur le revenu et autres législations connexes. Nos témoins aujourd'hui sont les fonctionnaires du ministère, sous la direction de Len Farber. Je crois que nous allons simplement continuer. Hier, monsieur Farber, nous nous étions arrêtés aux conventions de retraite, si je ne m'abuse.

M. Len Farber (directeur, Direction de la politique et de la législation de l'impôt, ministère des Finances): Vous avez entièrement raison, monsieur le président. Lorsque la séance a été levée hier, nous en étions aux conventions de retraite. De nombreux articles sont en cause ici. Les principaux d'entre eux sont les articles 7 et 17, le paragraphe 50.(2) et l'article 62. Si vous me le permettez, je demanderai à mon collègue de vous dire en quelques mots ce que sont ces conventions de retraite et les amendements que ce projet de loi y apporte. Nous examinerons ensuite les autres motions, les motions de deuxième lecture dont vous avez été saisis.

M. John Fuke (associé au directeur général, Direction générale de la législation, ministère du Revenu): Monsieur le président, ces conventions de retraite existent déjà et l'objet de cette motion est de les imposer. C'est une convention qui permet à un employeur de verser des cotisations à une tierce personne, qu'on appelle un dépositaire, ces cotisations étant versées à un employé ou à quelqu'un d'autre lorsque cet employé prend sa retraite ou démissionne.

Ces conventions s'apparentent au régime de retraite mais ne sont pas enregistrées. On pourrait baptiser ces conventions régime de retraite non enregistré. En l'absence de toute définition s'appliquant à ces conventions de retraite, ces dernières sont normalement considérées comme des régimes de prestations.

Le projet de loi permet aux employeurs d'obtenir une déduction pour toute cotisation versée à ces régimes qui sont frappés d'un impôt remboursable de 50 p. 100 au moment où lesdites cotisations sont versées. Cet impôt est remboursé lorsque l'employé reçoit l'argent qui se trouvait dans le régime. Un impôt frappe l'argent ainsi reçu, impôt que doit acquitter l'employé.

Le président: Compte tenu des nouveaux taux d'imposition que propose le Livre blanc, pourquoi prévoit-on un impôt remboursable de 50 p. 100.

M. Fuke: Cette mesure s'applique cette année, le taux de 50 p. 100 étant à peu près équivalent au taux d'imposition des particuliers le plus élevé.

[Texte]

The Chairman: Federal and provincial.

Mr. Fuke: Federal and provincial. It is a special tax, so it is not subject to the provincial grants.

The Chairman: Do you account the half-back to the provinces or do you just pocket the money while you wait until the money is paid out?

Mr. Fuke: My understanding is that the money stays here until the pay-out occurs.

The Chairman: I see. We can profit on this. That is good. I just wanted to know how we worked it. How do these work? These are not pension plans.

Mr. Fuke: No, these are not pension plans. These might be supplemental pension plans. Suppose an employer agrees to pay an employee on retirement over and above what he would get out of the registered pension plan that has been established in the company. This type of an arrangement was attractive for entities that were not paying any tax, such as hospitals or universities, who could set aside money for key employees and who did not care whether they got a deduction when they first set them up. This new treatment provides that there is a tax paid when the money becomes vested in the employee. It is this refundable tax that then goes back when the employee actually brings it into income.

The Chairman: It is going to wipe out these plans completely, is it not?

Mr. Fuke: Probably.

The Chairman: You just made them unsound.

Mr. Fuke: We made them tax indifferent. Let us put it this way.

The Chairman: Let us put it this way: there is no investment build-up possibility in them because you have taxed them 50% right off the bat.

Mr. Fuke: This is correct.

The Chairman: There is not a situation I can think of where the employee would not be better off to have the money paid out to him.

Mr. Fuke: I think it is fair to say that this was the intention in bringing these provisions.

Mr. Garneau: For the taxable employer, it is the same. The tax is paid by the employer when the money is set aside, compared to—

Mr. Fuke: When the money is set aside; this is correct. If an employer previously was setting aside \$100,000 into a retirement benefit plan, he had no deduction for the money until the money was paid out. With a retirement compensation arrangement, the employer gets \$100,000 deduction, but \$50,000 of the amount of money goes into the refundable tax account, and only \$50,000 goes into the plan for reinvestment.

• 1010

Mr. Garneau: Il en sera de même pour le Régime de rémunération différée?

[Traduction]

Le président: Taux d'imposition fédéral et provincial.

M. Fuke: Oui. Il s'agit d'un impôt spécial qui ne tombe donc pas sous le coup des subventions provinciales.

Le président: Remettez-vous la moitié de cet argent aux provinces ou empochez-vous l'argent jusqu'à ce qu'il soit versé à l'employé?

M. Fuke: Je crois que cet argent reste dans les caisses du gouvernement tant qu'il n'est pas remis à l'employé.

Le président: Je vois. Nous en profitons donc. C'est bien. Je voulais simplement savoir comment ces régimes s'appliquent? Ce ne sont pas des régimes de pensions.

M. Fuke: Non, ce ne sont pas des régimes de pensions, mais disons plutôt des régimes de retraite complémentaires. Supposons qu'un employeur accepte de verser à un employé qui prend sa retraite une somme supérieure à ce qu'il obtiendrait du régime de pension enregistré établi par la compagnie. Ce type de convention était intéressant pour les établissements qui n'acquittaient aucun impôt, comme les hôpitaux ou les universités, qui pouvaient ainsi mettre de l'argent de côté pour le compte de leurs principaux employés et qui se souciaient peu d'obtenir une déduction. Cette nouvelle mesure frappe d'un impôt l'argent qu'acquiert l'employé. Cet impôt est remboursé lorsque l'employé touche l'argent en question.

Le président: Cette mesure va faire disparaître tous ces régimes, n'est-ce pas?

M. Fuke: Vraisemblablement.

Le président: Vous venez de les rendre inutiles.

M. Fuke: Disons que l'avantage fiscal est supprimé.

Le président: Disons qu'il devient impossible d'accumuler de l'argent dans ces régimes car cet argent est frappé immédiatement d'un impôt de 50 p. 100.

M. Fuke: Vous avez raison.

Le président: Il vaudrait mieux que l'employé reçoive cet argent directement.

M. Fuke: Je crois que c'était l'intention recherchée.

M. Garneau: Pour un employeur imposable, cela revient au même. Cet impôt est acquitté par l'employeur lorsque l'argent est mis de côté, par opposition à...

M. Fuke: Lorsque cet argent est mis de côté, c'est exact. Si auparavant un employeur versait 100,000\$ dans un régime de pensions, il n'avait droit à aucune déduction tant que cet argent n'était pas retiré. Une convention de retraite permet à un employeur d'obtenir une déduction de 100,000\$, mais sur ces 100,000\$, 50,000\$ sont versés dans un compte d'impôt remboursable et les 50,000\$ qui restent sont réinvestis dans le régime.

Mr. Garneau: Will it be the same for salary deferral arrangements?

[Text]

Will it be the same for RRSPs?

Mr. Fuke: No. The salary deferral arrangement is deemed not to be a retirement compensation arrangement. So it meets the definition of a salary deferral arrangement. It is out of the RCA regime. So the legislation that came in a year ago with respect to salary deferral arrangements is untouched by this.

The Chairman: Why do you not just abolish these things? Why do you want to clutter up the bill?

Mr. Fuke: We are not creating anything here. We are taxing arrangements that already exist in the community.

The Chairman: But why do you not just say that after a certain date they do not exist, and that any money set aside for employees is taxable no matter what?

Mr. Fuke: The money may not be vested in the employee until the passage of a future event.

The Chairman: That is too bad. Then it is not deductible from the company, and the tax is paid by the company. They can do what they want with it.

Mr. Fuke: The fact that it may not be deductible by the company will not affect the institutions that were taking advantage of the act before this provision. We were dealing with tax exempts who were not paying any tax at all. They were setting aside money for a university or hospital, trying to attract a top-name individual. The only way we could stop this arrangement was to extract what we felt was the appropriate level of tax up front.

Mr. Garneau: The lawyer will find other ways to do the same thing.

Mr. Fuke: That has always been the case.

The Chairman: It would be simple as hell. You pay the money out in the salary to the person, only you have him agree to put it in an account that you control. He pays the tax on the salary, and it is sitting in an account that he does not control. There are all sorts of ways around this.

Mr. Farber: That is not one of them, since the tax would have been paid.

The Chairman: Sure, but the tax is then paid at the employee's level rather than at a 50% charge right off the bat.

Mr. Fuke: That option is still available to the employee whose rate of tax is lower than the rate on these retirement compensation arrangements.

Mr. Garneau: What about a university or a hospital that would just create a reserve?

Mr. Fuke: This only applies to arrangements where the money is paid to a custodian. If the university or hospital

[Translation]

En sera-t-il de même pour les régimes d'épargne-retraite enregistrés?

M. Fuke: Non. Les régimes de rémunération différée ne sont pas considérés comme étant des conventions de retraite. C'est un régime de rémunération différée et n'a rien à voir avec les conventions de retraite. Ainsi, les dispositions législatives régissant les régimes de rémunération différée qui ont été adoptées il y a un an ne sont pas touchées par cette mesure.

Le président: Pourquoi ne pas simplement faire disparaître tout cela? Pourquoi voulez-vous alourdir le projet de loi?

M. Fuke: Rien n'est créé en l'espèce. Nous nous contentons simplement de frapper d'un impôt des conventions de retraite qui existent déjà.

Le président: Mais pourquoi ne pas les abolir à compter d'une certaine date et frapper d'un impôt tout argent mis de côté pour le compte des employés?

M. Fuke: Cet argent pourrait ne pas être dévolu à l'employé avant que quelque chose ne se produise.

Le président: Tant pis. Dans ce cas, la compagnie ne reçoit aucune déduction et doit acquitter l'impôt. Elle peut faire ce qu'elle veut avec cet argent.

M. Fuke: Le fait que la compagnie ne puisse bénéficier d'une déduction ne touchera pas les établissements qui profitaient de la loi avant que cette disposition ne soit proposée. Il s'agissait d'établissements qui étaient dispensés de par la loi d'acquitter des impôts. Ils mettaient de l'argent de côté pour une université ou un hôpital, en essayant d'attirer des experts. La seule façon de mettre fin à ce type d'accord était d'imposer cet argent dès le départ.

M. Garneau: Un avocat trouvera d'autres façons de faire la même chose.

M. Fuke: Cela a toujours été le cas.

Le président: Ce pourrait être très simple. Vous versez cet argent à l'employé à condition qu'il accepte de le verser dans un compte que vous contrôlez. Il acquitte un impôt sur son salaire, mais cet argent reste dans un compte qu'il ne contrôle pas. On peut trouver des tas d'autres façons.

M. Farber: Ce n'en est pas une, puisque l'impôt aura déjà été acquitté.

Le président: Bien sûr, mais l'impôt est acquitté par l'employé selon son propre taux d'imposition et non pas à raison de 50 p. 100 immédiatement.

M. Fuke: Cette option est toujours possible si le taux d'imposition de l'employé est inférieur au taux d'imposition de ces conventions de retraite.

M. Garneau: Et une université ou un hôpital qui se contenterait de créer une réserve?

M. Fuke: Cette mesure ne s'applique qu'aux conventions de retraite dont les cotisations sont versées à

[Texte]

chooses to set aside a reserve out of its own funds, there is nothing we can do about it.

The Chairman: The employee is entitled to the money because he has a contract under which, on the performance of certain duties, the university agrees to pay a special fee.

Mr. Fuke: That may be subject to the salary deferral arrangement.

The Chairman: Is that what all these amendments are about?

Mr. Fuke: Yes.

The Chairman: I believe we ought to rethink this to see if we can do it simpler. This just goes on and on, section after section after section, and in effect you have abolished the system.

Mr. Garneau: The system has never been created.

Mr. Fuke: There was never any statutory blessing for this system. It is a system that was created by the tax advisers, and we are taxing what they created.

The Chairman: Let us go on to share-for-share exchanges. Wait. Have you got a bunch of little amendments there?

Mr. Farber: There are additional motions on page 22, 26.

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The Chairman: Is there anything in these, other than just purely straightening up the—

Mr. Farber: Very technical amendments, Mr. Chairman. Cross-reference amendments, a number of changes just to clean up those rules. They are on pages 22, 26, 69 and 116.

The Chairman: There is nothing in these right now, is there, Mr. Farber? I mean there is nothing we can—

Mr. Farber: Nothing of importance, other than what we have told you about the basic arrangements.

The Chairman: Let us go on to share-for-share exchanges.

Mr. Wally Conway (Senior Official, Legislation Division, Tax Policy and Legislation Branch, Department of Finance): Share-for-share exchange rules, or corporate re-organization rules, provide rules which take place when a vendor of the shares exchanges his shares or shares of a purchaser corporation.

The Chairman: Can I stop you for a moment? I am told by my clerk that you are amending a section of the act that you have not put in your bill. Do you want to explain that, Marie, please?

The Clerk of the Committee: Well, in the bill it starts at paragraph 60(t), and then you are going to (j) here. Unless I am—

[Traduction]

un dépositaire. Si une université ou un hôpital choisit de se constituer une réserve à partir de ses propres ressources, nous ne pouvons absolument rien faire.

Le président: L'employé a droit à cet argent car il a signé un contrat qui lui permet de recevoir des honoraires extraordinaires s'il exécute certaines tâches.

M. Fuke: Cela relève peut-être du régime de rémunération différée.

Le président: Et tous ces amendements portent sur la même chose?

M. Fuke: Oui.

Le président: Je crois que nous devrions revoir cela pour voir si nous ne pouvons pas trouver de moyens plus simples. On retrouve la même chose article après article, alors qu'en fait, vous avez aboli ce système.

M. Garneau: Il n'a jamais été créé.

M. Fuke: Aucune loi n'a jamais entériné ce système. Il a été créé par les conseillers fiscaux et nous frappons d'un impôt l'objet de leur création.

Le président: Passons aux échanges d'actions. Attendez. Y a-t-il d'autres amendements?

M. Farber: Il y a d'autres motions aux pages 22 et 26.

Le président: Ces motions renferment-elles quoi que ce soit de spécial ou s'agit-il simplement d'ajuster. . .

M. Farber: Ce sont des amendements de pure forme, monsieur le président. Des amendements de renvoi, un certain nombre de modifications qui ont pour but d'ajuster ces nouvelles règles. Ces amendements se trouvent aux pages 22, 26, 69 et 116.

Le président: Ces amendements n'ont rien de spécial, n'est-ce-pas, monsieur Farber? Nous ne pouvons rien. . .

M. Farber: Rien qui soit important, mis à part ce que nous vous avons dit à propos des conventions de base.

Le président: Passons alors aux échanges d'actions.

M. Wally Conway (haut fonctionnaire, direction de la politique et de la législation de l'impôt, ministère des Finances): Les règles sur les échanges d'actions ou les règles sur la restructuration des entreprises, portent sur les échanges d'actions entre compagnies.

Le président: Puis-je vous interrompre? La greffière me dit que vous modifiez un article de la loi qui ne figure pas dans le projet de loi. Voudriez-vous nous expliquer cela, Marie, s'il vous plaît.

La greffière du Comité: Eh bien, dans le projet de loi, cela commence à l'alinéa 60(t) et ensuite on passe à l'alinéa j). A moins que je. . .

[Text]

The Chairman: What page are you on? Page 26, 28?

The Clerk: I am on page 26.

The Chairman: I just want to make sure you have a legal amendment here.

Mr. Farber: Mr. Chairman, that clause you have just referred to, while it does open up a new section of the act, is a consequential change to pick up on the retirement compensation arrangements. There is no real policy in this, but it was a consequential change to a section of the act that had not been opened up before.

The Chairman: But the trouble is that it is not in the ways and means motion. That is your problem.

Mr. Farber: It was not in the original ways and means motion. This is additional motion. But as I say, it is merely a consequential amendment, picking up on—

The Chairman: No, but this particular consequential amendment is not in the ways and means motion. You have now made a consequential amendment that was not in the ways and means motion. You are prohibited from doing that. That is your problem. You may have to issue a new ways and means motion, is what I am saying to you. And I would be delighted if you did, but would you take a look at that very closely? I think Marie may have spotted something that can cause you some problems. It is not very difficult for you to issue a new ways and means motion. And we could, by consent, presumably pass the necessary enabling legislation.

Mr. Farber: Well, you are right, Mr. Chairman, it is a new motion. However, I would just emphasize that it is a new motion which is merely consequential on a previous motion that was there.

The Chairman: We will have the clerk consult. We are having a dispute between clerks now.

Mr. Farber: Well, I prefer those kinds of disputes.

The Chairman: Okay. We can rule on those. Now, let us go to share-for-share exchanges.

Mr. Conway: The share-for-share exchange rules in the act provide rules which take place when a vendor of shares exchanges shares for shares of a purchaser company. And what we have done is amend the rules to prevent corporate tax avoidance.

The Chairman: Well, all right, what kind of corporate tax avoidance are you talking about?

Mr. Conway: For example, the old rules stated that a vendor could sell his shares to a purchaser company in exchange for shares of the purchaser. But the vendor would get a rollover of the cost base. In other words there would be no tax effect.

[Translation]

Le président: A quelle page? Page 26 ou page 28?

La greffière: Page 26.

Le président: Je veux simplement m'assurer que l'amendement que vous présentez l'est en bonne et due forme.

M. Farber: Monsieur le président, l'article que vous venez de citer, même s'il s'agit d'un nouvel article de la loi, n'est qu'un amendement corrélatif portant sur les conventions de retraite. Il n'y a rien de nouveau, et il s'agit simplement d'une modification corrélatrice à un article de la loi qui n'avait pas encore été modifié.

Le président: Mais l'ennui c'est qu'il ne se trouve pas dans la Motion des voies et moyens. C'est là où le bât blesse.

M. Farber: Il ne figurait pas dans la Motion des voies et moyens initiale. Il s'agit d'une nouvelle motion, mais comme je l'ai dit, c'est un amendement corrélatif, c'est tout. . .

Le président: Non, mais cet amendement corrélatif ne figure pas dans la Motion des voies et moyens. Vous venez d'apporter un amendement corrélatif qu'on ne retrouve pas dans la Motion des voies et moyens. Vous ne pouvez pas procéder ainsi. Ce n'est pas possible. Vous devrez peut-être rédiger une nouvelle motion des voies et moyens. Et je serais ravi si vous le faisiez, mais pourriez-vous vérifier cela de plus près? Je crois que Marie a peut-être découvert quelque chose qui pourrait vous causer des ennuis. Il ne vous est pas très difficile de rédiger une nouvelle motion des voies et moyens. Et nous pourrions, si tout le monde était d'accord, adopter la loi habilitante nécessaire.

M. Farber: Eh bien, vous avez raison, monsieur le président, il s'agit d'une nouvelle motion. Cependant, je voudrais insister sur le fait que cette nouvelle motion découle purement et simplement d'une motion précédente qui figurait dans le texte.

Le président: Nous demanderons à la greffière de procéder à des consultations. Les greffiers n'arrivent pas à s'entendre.

M. Farber: Eh bien, je préfère que ce soit eux que moi.

Le président: Bien. Nous verrons cela plus tard. Passons maintenant aux échanges d'actions.

M. Conway: Ces règles régissent les échanges d'actions entre un vendeur et une compagnie acheteuse. Et nous avons modifié ces règles en vue d'empêcher tout évitement fiscal de la part d'entreprises.

Le président: Bien, donnez-nous en des exemples.

M. Conway: Par exemple, les anciennes règles permettaient la vente d'actions à une compagnie acheteuse en échange de ses actions. Mais le vendeur obtenait alors un roulement du coût de base. Autrement dit, tout se faisait en dehors du fisc.

[Texte]

The Chairman: That is right. What is wrong with that?

Mr. Conway: There is nothing wrong with that. The company would get fair market value based on the shares. What the change has done is to say the company gets basically the lesser of the fair market value of the share that he acquired or its paid-up capital.

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The reason for it is that when they had the fair market value based on the shares, all the shareholders of, say, a small public company would exchange all their shares in a shell company. The shell company would then be owned by the same shareholders that owned the former company. The shell company would have a fair market value based on the shares. The shares of the original company could then be sold with no gain or loss and the shareholders would not pay any tax. Therefore we have changed the rules—

The Chairman: The shares of the original company could be sold for no gain or loss?

Mr. Conway: Maybe I could run through these slowly again. Let us say company A is owned by 100 people and they bought those shares on subscription for \$100 and now they are worth \$1,000 each. Those shareholders could have their lawyer set up a shell company and do a share exchange with the shell company, whereby they would exchange their shares in company A for shares in the shell company, company B. Company B would get a fair market value base for the shares of company A, and the shareholders would get a rollover in their base. In other words, there would be no tax consequence. Now you have company B owning company A with a base of fair market value. Those shares could now be sold with no gain or loss.

Mr. Garneau: Did they sell that \$1,000 without capital gains?

Mr. Conway: This is right. This is the way the rule worked. What we have done is—

The Chairman: Why would they not be sold at the cost base of the rollover? Would this not be the new base of those shares as far as the company B is concerned? Why would you all of a sudden pony up the base?

Mr. Conway: This was the way the rule read. I guess the theory for it was that it is like a barter transaction, except the rule was imperfect and it treated only one side of the barter transaction as being a barter transaction.

The Chairman: It sounds like Egypt again.

Mr. Conway: Yes. Therefore, we have changed those rules to prevent this type of stuff.

[Traduction]

Le président: Oui, et alors?

M. Conway: Il n'y a effectivement rien d'anormal là-dedans. La compagnie obtenait un montant correspondant à la juste valeur marchande des actions. Or cette modification fait en sorte maintenant que la compagnie obtiendra soit la juste valeur marchande des actions qu'elle a acquises, soit le montant de son capital versé, la somme la moins élevée étant retenue.

La raison en est que les actionnaires d'une petite société cotée en bourse, par exemple, procédaient à un échange d'actions avec une société-écran lorsque le calcul se faisait selon la juste valeur marchande des actions. Les mêmes actionnaires devenaient alors propriétaires de la nouvelle société-écran. Celle-ci avait alors pour valeur marchande la valeur des actions sur le marché. Les actions de la société d'origine pouvaient alors être vendues sans gain ni perte, ce qui fait que les actionnaires ne payaient aucun impôt. Voilà pourquoi nous avons modifié les règles. . .

Le président: Les parts de la société d'origine pouvaient être alors vendues sans gain ni perte?

M. Conway: Je vais essayer de reprendre cela plus lentement. Supposons que 100 personnes se partagent les parts d'une société A, actions qui ont été achetées pour 100\$ chacune, et qui valent maintenant 1,000\$. Ces actionnaires peuvent demander à leur avocat de créer une société-écran, et de procéder à un échange d'actions, les actions de la société A devenant celles de la société-écran B. La valeur de celle-ci est alors la juste valeur marchande des actions de la société A et les actionnaires peuvent alors de prévaloir du roulement du prix de base. Autrement dit, cela leur permet de ne payer aucun impôt. La société B est maintenant propriétaire de la société A, avec pour base la juste valeur marchande. Ce qui fait que les actions peuvent être alors vendues sans perte ni gain.

M. Garneau: Est-ce qu'elles ont pu alors être vendues à 1,000\$ sans que l'on ait à déclarer de gain en capital?

M. Conway: Exactement. C'est ce que permettaient les règles. Nous avons alors décidé. . .

Le président: Mais pourquoi ne pas les vendre à la valeur de ce qu'elles coûtent au moment du transfert? Est-ce que ce n'est pas effectivement du point de vue de la société B, le nouveau prix de base de ces actions? Pourquoi gonfler cette valeur initiale?

M. Conway: C'est de cette façon que la règle était appliquée. Du point de vue théorique c'était comparé à un troc, si ce n'est que la règle était imparfaite puisque une seule partie à la transaction bénéficiait effectivement du principe du troc.

Le président: Cela fait un petit peu penser au *Little Egypt Bump*.

M. Conway: Oui. Voilà pourquoi nous avons décidé de modifier les dispositions.

[Text]

Mr. Garneau: It is a clear case you have explained. You may have borderline cases.

Mr. Conway: This is right. The choice in amending these rules is, first, stop this type of stuff—

The Chairman: What do you do? How are you going to go about it? How are you going to handle it?

Mr. Conway: The rule says now that the cost to company B is the lesser of the paid-up capital of the shares, in other words, the amount the shares were originally subscribed for, or their fair market value.

The Chairman: Yes. The lesser of.

Mr. Conway: The lesser of the original subscribed value or the fair market value.

The Chairman: It is fair ball. It is okay. Then, on the rollover the second company does not have a bump up.

Mr. Conway: This is right. There is a second amendment, in that prior—

Mr. Garneau: In the example you gave, you referred to the subscription price. If the same 100 people buy shares in the marketplace of a public company at \$100 and try to do the same, then the rule will say it will be the lesser of the fair market value or their cost.

Mr. Conway: To the purchaser and company. As for the shareholder himself, if an individual, nothing happens; he just gets a rollover and nothing happens to him until the time he sells the substituted share.

Mr. Garneau: Yes, but when he sells it, he will have a capital gain, and the deemed costs will be \$100.

Mr. Conway: Yes.

The Chairman: It does not affect the shareholder on the rollover; you only affect the company.

Mr. Conway: There is no affect at all whatsoever.

The Chairman: We are dealing with the valuation for the company that receives the share from the rollover.

Mr. Conway: This is right.

The Chairman: You have a bunch of consequential clauses then. The paid-up value clause is consequential.

Mr. Conway: Yes. Paid-up capital, yes.

The Chairman: Okay, let us go on to the next one—source deductions.

Mr. Farber: Mr. Chairman, the principal clause here is clause 66 as well as clause 52, dealing with joint and several liability with respect to source deductions. Mr. White will give you some background on it.

[Translation]

M. Garneau: L'exemple que vous prenez est extrêmement clair. Il pourrait y avoir des situations plus floues.

M. Conway: Oui. Notre décision de modifier les dispositions correspond tout d'abord à un souci de . .

Le président: Comment allez-vous faire? Comment allez-vous vous y prendre pour appliquer la nouvelle règle?

M. Conway: Les dispositions prévoient maintenant que la société B aura acquis ses actions pour la moindre des sommes suivantes: le capital versé au moment de l'émission des actions, ou leur juste valeur marchande au moment de l'opération.

Le président: Très bien. La moindre des deux sommes.

M. Conway: Oui, de leur valeur au moment de l'émission, ou de leur juste valeur marchande.

Le président: Ça me semble assez juste. Ça me semble tout à fait acceptable. Cela évitera qu'au moment de l'échange la valeur ne soit gonflée.

M. Conway: Oui. Il y a un deuxième amendement. . .

M. Garneau: Dans l'exemple que vous citez vous parlez de la valeur au moment de l'émission. Supposons que les 100 mêmes personnes aient acheté des actions sur le marché, à 100\$ chacune, et qu'elles essaient de faire la même chose; est-ce que la règle de la moindre des sommes s'appliquera de la même façon?

M. Conway: Pour l'acheteur et pour la société, oui. Pour ce qui est de l'actionnaire lui-même, si c'est un particulier, il ne se passe rien; il s'agit d'un simple transfert, et rien ne se passe jusqu'à ce qu'il vende la nouvelle action.

M. Garneau: Très bien, mais lorsqu'il la vend, il déclare un gain en capital, et l'action sera réputée lui avoir coûté 100\$.

M. Conway: Oui.

Le président: Le transfert ne touche donc pas l'actionnaire, mais la société.

M. Conway: Ça n'a aucune incidence.

Le président: Ce dont nous parlons ici c'est de la valeur de la société qui fait l'acquisition de ces actions.

M. Conway: Oui.

Le président: Il y a ensuite toute une série de dispositions corrélatives, et notamment pour ce qui est du calcul du capital versé.

M. Conway: Oui. Le calcul du capital versé.

Le président: Très bien, passons maintenant aux retenues à la source.

M. Farber: Monsieur le président, l'article essentiel ici est l'article 66 du projet de loi, et l'article 52 où il est question de responsabilité solidaire à l'égard des retenues à la source. M. White va vous expliquer cela.

[Texte]

[Traduction]

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Mr. Harold White (Senior Official, Legislation Division, Tax Policy and Legislation Branch, Department of Finance): The Income Tax Act already has some provisions intended to give the Crown priority over secured creditors of tax debtors for amounts payable to the Crown under the Income Tax Act. Those provisions have never been proclaimed.

The Chairman: That is correct. It depends on whether we clean up the Bankruptcy Act. That was the last time we were around here.

Mr. H. White: Pending the proclamation of those provisions, there is still quite a concern about unremitted source deductions, deductions taken from employees' pay which were supposed to have been held in trust, but were not held in trust in a bankruptcy situation. The Crown would like to have priority for those amounts.

The Chairman: Why should you have more priority than any other creditor?

Mr. H. White: Basically because those are amounts which are supposed to be held in trust.

The Chairman: I do not understand that. So far as I am concerned, you are in the same position as any other creditor. You can prosecute people for not deducting and put them in jail for not paying, but so far as the money in the till is concerned, why should the Government of Canada rank ahead of other taxpayers?

Mr. H. White: The federal government would find itself in a situation where the employees would be given credit for those amounts deducted from their pay, but the benefit of those amounts would be going to some other creditor.

The Chairman: Yes, I realize that. You have the right in law to prosecute and jail people who break the trust. You have a penalty, but why should you penalize other people who have also been diddled by the same person who tried to diddle the federal Crown?

Mr. H. White: This is not intended as a penalty provision. We are only after the trust money which was supposed to have been held on behalf of the government.

The Chairman: I know.

Mr. Farber: Mr. Chairman, most of the creditors are not in a trust situation. These are trust—

The Chairman: You are not in a trust situation.

Mr. Farber: Yes, you are.

The Chairman: You are not in a trust situation either. You create a trust, but your problem is that the person who was supposed to put the money in the trust did not do it.

M. Harold White (haut fonctionnaire, Division de la législation, Direction de la politique et de la législation de l'impôt, ministère des Finances): Il y a dans la Loi de l'impôt sur le revenu des dispositions qui donnent à l'État la priorité sur les autres créanciers garantis d'un débiteur fiscal, et cela pour les sommes qu'il doit au fisc conformément à la Loi de l'impôt sur le revenu. Ces dispositions n'ont jamais été promulguées.

Le président: C'est exact. Tout dépendra de ce qui se passera pour la Loi sur la faillite. Cela ça remonte à la dernière fois où nous nous sommes retrouvés ici.

M. H. White: Si ces dispositions sont effectivement promulguées, il reste tout de même le problème de ces retenues à la source qui n'ont pas été versées, alors qu'elles ont été déduites des salaires des employés et auraient dû être versées à un fonds de fiducie: elles n'ont pas été versées en raison d'une faillite. L'État voudrait, sur ces sommes, avoir la priorité.

Le président: Pourquoi l'État aurait-il la priorité sur les autres créanciers?

M. H. White: Parce qu'il s'agit de sommes qui auraient dû être détenues en fiducie.

Le président: Je ne comprends pas. De mon point de vue, vous n'êtes qu'un créancier parmi les autres. Vous pouvez cependant engager des poursuites, faire mettre les gens en prison, mais je ne vois pas pourquoi, pour ce qui est de l'argent lui-même, l'État canadien aurait une priorité quelconque.

M. H. White: Ce qui se passe, du point de vue de l'État fédéral, c'est que les sommes déduites du salaire des employés leur seraient créditées mais elles seraient versées à un autre créancier.

Le président: Oui, je comprends. Cela vous donne le droit, de poursuivre les coupables, et de les mettre en prison pour abus de confiance. La sanction est donc prévue, mais pourquoi pénaliser ceux qui ont également été victimes de quelqu'un qui a également essayé de tromper l'État?

M. H. White: Il ne s'agit pas ici de vouloir punir, ce n'est pas l'intention de la disposition en question, il s'agit simplement de récupérer de l'argent qui aurait dû être détenu en fiducie au nom de l'État.

Le président: Je sais.

M. Farber: La plupart des créanciers ne sont pas des fiduciaires.

Le président: Vous non plus.

M. Farber: Si, d'une certaine façon.

Le président: Vous n'êtes pas une société de fiducie. Vous créez une fiducie et votre problème c'est que celui qui devait y verser les sommes perçues ne l'a pas fait.

[Text]

Mr. Farber: That does not make it his money. It is still the federal government's money.

The Chairman: It is not his money. If he had an obligation to put it in trust or hold it in trust, he did not hold it in trust. That is your problem. You have a very good remedy against him. You can hound him and put him in jail. It is a great remedy. If most creditors had the right to put their debtors in jail, they would be in wonderful shape. You are the only creditor in the country who can put debtors in jail for breach of trust. Why should you have the further right to—

Mr. Farber: I understand your point, Mr. Chairman, but they are trust funds. Their money is deducted from the employees. It is almost an agency type of relationship. The money is already the Crown's money.

The Chairman: What is the view of the trustees in bankruptcy?

Mr. H. White: I am not sure.

The Chairman: What is the view of the Minister of Consumer and Corporate Affairs?

Mr. H. White: These provisions were first announced on June 5 and, to the best of my knowledge, we have not had any adverse reaction to it.

The Chairman: The last time we had this bill before us—it is essentially what you are trying to do again—the reaction came at the end of the committee hearings when somebody finally spotted it.

Mr. H. White: I suspect the persons who would be affected by these provisions probably accepted the provisions put into the act. They probably were not surprised to see these other provisions which do not go so far. These will basically apply where a tax debtor has signed his accounts receivable to—

The Chairman: I am going to mark it off to one side and ask our research department to get in touch with the association.

Mr. Garneau: The amount of money we are talking about normally should have been transferred to the government.

• 1030

Mr. H. White: Exactly.

Mr. Garneau: As it has not been transferred, you want to make sure that you will get it in time for the. . . So it is your money, in fact. I mean, not yours but the government's money.

Mr. H. White: That is right. It is money that was deducted from employees' pay and held in trust for the federal government.

[Translation]

M. Farber: Mais cet argent ne lui appartient pas non plus. Il s'agit bien de l'argent de l'État.

Le président: Effectivement. Et alors qu'il avait l'obligation de déposer cet argent dans un fonds, ou de le détenir en fiducie, il ne l'a pas fait. C'est précisément votre problème. Vous avez donc un excellent remède. Vous pouvez engager des poursuites, et faire emprisonner le coupable. C'est quand même pas négligeable. Si la plupart des créanciers avaient ce droit, je crois qu'ils s'en tireraient mieux. Vous êtes le seul créancier du pays qui puisse mettre ses débiteurs en prison pour escroquerie. Pourquoi auriez-vous par ailleurs le droit de. . .

M. Farber: J'ai très bien compris ce que vous dites, monsieur le président, mais il s'agit de fonds de fiducie. L'argent a été déduit du salaire des employés. C'est presque une relation de mandataire. Il s'agit bien de l'argent de l'État.

Le président: Qu'en pensent les syndicats de faillite?

M. H. White: Je ne le sais pas vraiment.

Le président: Et qu'en pense le ministre de la Consommation et des Corporations?

M. H. White: Les dispositions ont été annoncées le 5 juin pour la première fois, et que je sache, nous n'avons enregistré aucune réaction négative.

Le président: La dernière fois que nous avons discuté de ce projet de loi—là-dessus votre position est restée à peu près la même—il y a eu effectivement des réactions, vers la fin des audiences du Comité, lorsque quelqu'un s'en est aperçu.

M. H. White: Je suppose que les personnes qui seraient concernées par ces dispositions ne se sont pas opposées aux dispositions correspondantes de la loi. Elles n'ont sans doute pas été surprises de voir ici des dispositions qui, en fait, ne vont même pas aussi loin. Je pense que cela concernera essentiellement des débiteurs fiscaux qui auront endossé des créances à. . .

Le président: Je vais mettre cela de côté, et demander à nos assistants de recherche de reprendre contact avec l'association en question.

M. Garneau: Il s'agit donc de sommes qui normalement auraient dû être transférées au Trésor public.

M. H. White: Exactement.

M. Garneau: Et comme ça n'a pas été fait, vous voulez vous assurer de pouvoir toucher à cet argent. . . D'une certaine manière c'est votre argent; pas le vôtre, celui de l'État.

M. H. White: Oui. De l'argent qui a été retenu du salaires des employés et détenu en fiducie pour le compte de l'État fédéral.

[Texte]

Mr. Farber: The employees are given credit for it immediately as a source deduction. So in essence it is the government's money.

Mr. Garneau: Yes. I think they are okay.

The Chairman: They are okay.

Mr. Garneau: Yes, that is the government's money. The employer—probably it is an employer in that case—did not transfer the money. If he is trying to... he would pay somebody else with the government's money. Do you not think it is okay to make sure that money comes to the right place?

The Chairman: The next one, successor rules.

Mr. Farber: Before you get there, Mr. Chairman, if you will notice that on your summary there is a bunch of consequential changes dealing with clauses 67, 75, 76, 77 and 78. Most of them are cross-reference changes picking up consequential amendments to the accelerated source remittances, a number of reference changes, and soon on. There is no policy in there at all, other than those cross-references to the penalties and the other provisions.

The next clause deals with the successor rules of resource corporations. Basically, the new successor rules replace the existing first and second successor rules to allow third, fourth and subsequent successions. I will ask Carol to give you any more information on that you would like. Would you like a brief overview of those changes?

The Chairman: Yes.

Ms Carol Muirhead (Senior Official, Legislation Division, Tax Policy and Legislation Branch, Department of Finance): The successor rules have been in the Income Tax Act since the 1960s and perhaps earlier. They apply to companies engaged in resource activities, and they relate to their ability to deduct unused exploration and development expenses incurred before there was a change of control of a company, or incurred by another taxpayer and transferred to the company when the company acquired all, or substantially all, of the oil and gas or mining business of the vendor.

So these are relatively complicated rules. They have related always to the expense pools, as they are defined in the Income Tax Act. Over the years, we had extended the concept of the succession of these pools to the purchaser to a second purchaser. And for several years now we have had representations from the industry and from the joint tax committee that we should provide for an indefinite number of these transfers, that there was really no logic in limiting them to two, especially in light of the type of corporate reorganizations we see today.

So we took the opportunity to rewrite the rules and bring them into one section. So our consequential amendments are quite lengthy in that they have repealed

[Traduction]

M. Farber: Le compte des employés est immédiatement crédité, c'est une déduction à la source. C'est donc essentiellement de l'argent de l'État.

M. Garneau: Oui. Je suis d'accord.

Le président: Vous trouvez?

M. Garneau: Oui, il s'agit bien de l'argent de l'État. L'employeur—il s'agit sans doute d'un employeur en l'occurrence—n'a pas fait transférer l'argent. Et s'il essaie... J'imagine qu'il a payé quelqu'un d'autre avec l'argent de l'État. Ne trouvez-vous pas normal que l'on s'assure de récupérer cet argent?

Le président: Passons à la question suivante, qui concerne les corporations remplaçantes.

M. Farber: Avant cela, monsieur le président, vous remarquerez que sur votre résumé il y a toute une série de dispositions corrélatives concernant les articles 67, 75, 76, 77 et 78 du projet de loi. Il s'agit en fait de modifications qui renvoient les unes aux autres, et notamment à propos de l'accélération des versements des retenues à la source, et de modifications nécessaires pour la cohérence de l'ensemble. Rien qui porte sur le fond, simplement des renvois, concernant les pénalités et certaines autres dispositions.

L'article suivant porte sur les corporations remplaçantes. L'amendement énonce les nouvelles règles sur les corporations remplaçantes et les secondes corporations remplaçantes, afin de permettre une troisième, quatrième, etc. succession. Je vais donc demander à Carol de vous informer plus amplement là-dessus. Est-ce que vous voulez d'abord un aperçu général de la question?

Le président: Oui.

Mme Carol Muirhead (haut fonctionnaire, Division de la législation, Direction de la politique et de la législation de l'impôt, ministère des Finances): Cette règle existe dans la Loi de l'impôt sur le revenu depuis les années 60 et peut-être même depuis plus longtemps. Cela concerne les sociétés minières, et leur droit de déduire les frais de prospection et d'aménagement non utilisés, remontant à une époque antérieure au rachat de la société, ou concernant un autre contribuable et transférés à la société lorsqu'elle a acquis tous, ou presque tous les avoirs de la société minière ou pétrolière et gazière du vendeur.

Ce sont des règles assez compliquées. Elles concernent notamment les comptes de frais, comme ils sont définis dans la Loi de l'impôt sur le revenu. Au fil des ans, nous avons fait bénéficier les seconds acheteurs de ces dispositions. Pendant plusieurs années, le secteur privé et le comité mixte de l'impôt nous ont demandé de permettre un nombre illimité de transferts, parce qu'il n'y avait en réalité aucune raison de vouloir en limiter le nombre à deux, étant donné notamment la façon dont le monde des sociétés se réorganise aujourd'hui.

Nous avons donc profité de l'occasion pour reformuler ces règles, et les présenter sous forme de disposition. Nos amendements corrélatifs sont assez longs, puisqu'il faut

[Text]

all the old rules. And principal clause 23 and proposed section 66.7 replace all the old rules and provide for an unlimited number of transfers.

The Chairman: This goes on and on in the explanatory notes here.

Mr. Garneau: Sir, do we have to understand everything to vote for or against?

The Chairman: I do not know. I mean, the Liberal Party does not understand everything.

Mr. Garneau: But when I read that a long time ago, when we were supposed to study Bill C-64... and my notes say that it is very, very complex.

Some hon. members: Oh, oh!

Mr. Garneau: Do you understand that—everything? I took the A, B, C, X, Y, Z, and tried to follow the example, and I could not.

Mr. Minaker: I thought they were selling soap.

The Chairman: In any event, what this does is give you multiple successions on the CEE and CCEE.

Ms Muirhead: Yes.

Mr. Garneau: Was it a tool to use tax deductions by a corporation when the transaction would have been done only for tax purposes, and this is what you want to get?

• 1035

Ms Muirhead: No, this amendment is really a relieving amendment. In January we announced some tightening measures to deal with avoidance, and one of those changes impacts on the way the successor rules were being used. I think we get to that later in the context of dealing with those loss transfer avoidance changes that we announced in January.

The Chairman: Why do we not just leave that alone?

Mr. Farber: But before we move on, there are a number of additional motions here.

The Chairman: I am sure there are. Half the book is, is it not?

Mr. Farber: Just about. Pages 31, 37, 43, 66, and 73 contain a series of consequential technical changes to the successor rules.

The Chairman: Tax avoidance to offset losses or other deductions. These are a bunch of tax avoidance rules, are they?

[Translation]

abroger les anciennes dispositions. Ce sont donc essentiellement l'article 23 du projet de loi et l'article 66.7 qui remplacent les anciennes dispositions, pour que les transferts puissent avoir lieu sans aucune restriction.

Le président: Je vois que les notes explicatives sont très longues.

M. Garneau: Est-il nécessaire, pour pouvoir voter, de comprendre le moindre détail?

Le président: Je ne sais pas. Le Parti libéral ne comprend pas toujours tout, de toute façon.

M. Garneau: Lorsque je me suis penché là-dessus, il y a longtemps, lorsque nous devions discuter le projet de loi C-64... Et d'après les notes que j'ai ici, c'est extrêmement, extrêmement complexe.

Des voix: Oh, oh!

M. Garneau: Vous comprenez tout, vous? J'ai pris cela de A à Z, j'ai essayé de comprendre l'exemple, je n'ai pas réussi.

M. Minaker: Je croyais que c'était aussi simple que la vente du savon.

Le président: Quoi qu'il en soit, cela permet le transfert, sans limite, des frais d'exploration au Canada et des frais cumulatifs d'exploration au Canada aux corporations remplaçantes successives.

Mme Muirhead: Oui.

M. Garneau: Ce que vous voulez éviter, c'est que cette règle ne puisse permettre à certaines sociétés d'effectuer de tels transferts uniquement dans le but de bénéficier de certaines déductions fiscales?

Mme Muirhead: Non, cette modification consiste à élargir la portée de la Loi. Au mois de janvier, nous avons annoncé un certain nombre de mesures concernant l'évitement fiscal, et l'une d'elles touche également les corporations remplaçantes. Nous y reviendrons tout à l'heure lorsque nous parlerons des modifications annoncées au mois de janvier, modifications concernant l'évitement fiscal en cas de transfert de pertes.

Le président: Pourquoi ne pas laisser cela pour le moment?

M. Farber: Avant de passer à la suite, j'aimerais vous faire remarquer qu'il y a toute une série de motions complémentaires.

Le président: Je n'en doute pas. La moitié de la liasse, n'est-ce pas?

M. Farber: Presque. Les pages 31, 37, 43, 66 et 73 portent sur toute une série de modifications techniques corrélatives concernant les corporations remplaçantes.

Le président: Passons maintenant à l'évitement fiscal lors de la déduction de pertes et autres éléments. Il s'agit de tout un ensemble de règles destinées à juguler l'évitement fiscal?

[Texte]

Mr. Farber: Yes. This was the subject of a press release put out on January 15 dealing with loss trading.

Mr. Dan MacIntosh (Senior Official, Corporations and Capital Gains, Legislative Division, Tax Policy and Legislation Branch, Department of Finance): In the Income Tax Act there are now rules that attempt to limit the ability of one taxpayer to transfer the benefit of his losses to another. However, we became aware towards the end of last year that these rules were being circumvented. A press release was issued in January that has tightened these loss-trading rules in a number of circumstances.

There are quite a number of clauses affected but the principle ways in which the loss-trading rules have been tightened are these. First of all, we deal with losses of a corporation for the year in which its control is acquired. The present change-of-control rules provide that, where control of a corporation is acquired in an arm's-length transaction, any of its losses for taxation years before the year of the change of control are restricted from being carried forward by being permitted in the future to be claimed only against future income of the business in which the loss was incurred. That is for non-capital losses.

Capital loss carry-forwards are completely killed on the change of control, but only for the years preceding the year in which the change of control occurred. One of the principal aims was to provide a rule to say that where control of a corporation has been acquired, its taxation year will be deemed to have ended on that day and therefore all losses realized up to that point will be restricted from being carried forward following the change of control.

In addition, accrued losses, losses that are latent but not yet realized, will be considered to have been realized on the change of control, and therefore may be used in that year in which control is acquired or carried back. But on the carry-forward they will be restricted where they are losses of a non-capital nature to future income from the business in which those accrued losses arose.

Another important change is that the change of control rules will now apply to the pool of scientific research expenditures. At present there is no change-of-control rule for those expenses, and one would think that they should be treated in the same way as non-capital loss carry-forwards. So in the future, the scientific research expense pool will be allowed to be claimed following a change of control of a corporation in the future only against income from the business to which the scientific research expenditures relate.

Another measure in these loss-trading rules is that investment losses or property losses will not be permitted to be carried forward following the change of control of a corporation.

[Traduction]

M. Farber: Oui. Cela faisait d'ailleurs l'objet du communiqué de presse du 15 janvier, concernant les reports de pertes.

M. Dan MacIntosh (haut fonctionnaire, Corporations et gains en capital, Division de la législation, Direction de la politique et de la législation de l'impôt, ministère des Finances): Il y a maintenant dans la Loi de l'impôt sur le revenu des règles qui doivent empêcher les contribuables de transférer leurs pertes, et d'en faire profiter ainsi d'autres contribuables. Nous nous sommes aperçus, à la fin de l'an dernier, que certains arrivaient à tourner ces nouvelles dispositions. Un communiqué de presse du mois de janvier annonçait un resserrement de ces règles concernant le report des pertes.

Divers articles sont ici concernés, mais je vais vous donner un aperçu de l'essentiel de ces nouvelles dispositions visant à limiter les reports de pertes. Il y a d'abord de nouvelles règles touchant les pertes de l'année où l'acquisition a eu lieu. Les règles actuelles sur le changement de contrôle prévoient que lorsque une société a fait l'objet d'un rachat, sans qu'il y ait de liens de dépendance entre l'acheteur et le vendeur, les pertes de toute année fiscale précédant l'année de la transaction ne peuvent être reportées prospectivement, que si elles sont déduites, par la suite, du revenu de la société qui a effectivement subi ces pertes. Il s'agit ici de pertes autres que des pertes en capital.

Les reports prospectifs de pertes en capital disparaissent complètement, s'il y a un changement de contrôle, mais uniquement pour les années précédant l'année de l'acquisition. L'objectif principal est d'avoir une règle précisant que l'exercice fiscal se termine le jour de l'acquisition, et que les pertes qui précèdent cette date ne peuvent pas être reportées prospectivement.

De plus, les pertes accumulées mais non réalisées seront réputées avoir été réalisées au moment de l'acquisition, et pourront donc être déduites cette année-là, ou reportées sur les années antérieures. Pour ce qui est du report prospectif, les pertes autres que les pertes en capital ne pourront être déduites que des revenus de la société qui aura effectivement encouru ces pertes.

Une autre modification importante étendra l'application des règles relatives au changement de contrôle au total des dépenses de recherches scientifiques. Pour le moment, ces dépenses ne font l'objet d'aucune règle spéciale en cas de changement de contrôle, et l'on pourrait penser qu'elles devraient être assujetties aux mêmes règles que les reports prospectifs de pertes autres que les pertes en capital. À l'avenir, ces dépenses de recherches scientifiques ne pourront être déduites, après l'acquisition d'une société par une autre, que du revenu de la société qui les a effectivement encourues.

Une autre disposition touchant ces reports prévoit que les pertes sur placement ou sur biens, ne pourront pas être reportées sur les années postérieures à compter de la date d'acquisition de contrôle.

[Text]

The last important change in this package is that it will no longer be possible to use intermediaries in loss-trading situations.

• 1040

For example, if a taxpayer has a property with a cost to him of \$100 but now has a value of \$1,000, he may wish to sell the property to a third party. If he sells it for \$1,000, normally he would have a \$900 capital gain or a \$900 income inclusion. To avoid this effect, he might choose to use the rollover rules in the act to roll over his property to another person, perhaps a corporation, and to take back a share to get the rollover treatment. Then this intermediary corporation would sell the property on to the ultimate purchaser.

The intermediary corporation, of course, would get the \$900 gain or \$900 income inclusion. The intermediary corporation would be a corporation that would itself have a lot of losses or tax credits. Therefore, having the gain realized in its hands would produce no tax revenues. The use of the intermediary in this sort of a deal really is a tax avoidance scheme, which we have now hopefully thwarted.

Mr. Garneau: Would it have been possible to cut the anti-avoidance rule that has been proposed in the white paper without changing the actual legislation?

Mr. MacIntosh: Just to use the proposed anti-avoidance rule rather than all of these changes?

Mr. Garneau: Yes.

Mr. MacIntosh: I do not think so. These rules deal not only with tax avoidance situations but also with cases where tax avoidance is not a motive, but rather unintended benefits are arising. For example, where one corporation takes over another, the rules provide that losses may not be carried forward by the target corporation, even though the takeover may not have had as its primary motive the use of losses. The theory is that those losses, because they were incurred by one person, should not be available to the new corporate group following the change of control. These rules merely extend the cases in which this sort of theory or principle should apply.

The Chairman: How do you do the fencing in of losses? In other words, you said that you could take over the ITC loss for research and development but you would have to confine the earning of income to cover those ITC losses or tax credits.

Mr. MacIntosh: This is right.

The Chairman: How do you do it? How do you fence it in?

Mr. MacIntosh: The amount of the scientific research pool at the time of the change of control will be known. Future income from the business to which those scientific research expenditures relate would be known in the

[Translation]

La dernière modification importante, dans cet ensemble de mesures, c'est qu'il ne sera plus possible de passer par le truchement d'intermédiaires pour transférer les pertes.

Prenons le cas d'un contribuable qui possède un bien qui lui a coûté 100\$ mais qui vaut actuellement 1,000\$ et qu'il souhaite vendre à une tierce partie. S'il le vend pour 1,000\$, normalement, il réalise un gain en capital de 900\$ qu'il doit inclure à son revenu. Pour éviter cela, il pourrait utiliser les règles de roulement prévues dans la loi pour transférer son bien à une autre personne, ou peut-être à une corporation, pour en reprendre une partie, afin de bénéficier du traitement de roulement. Dans ce cas, la corporation intermédiaire vendrait le bien au dernier acheteur.

Naturellement, la corporation intermédiaire se retrouverait avec ses 900\$ de gain en capital ou de montant à inclure à son revenu. Il s'agirait donc d'une corporation qui aurait subi beaucoup de pertes ou qui aurait des crédits d'impôt. Par conséquent, réaliser des gains ne lui ajouterait pas des revenus imposables. L'utilisation de l'intermédiaire dans ce genre de transaction revient en fait à un mécanisme d'évitement de l'impôt, que nous espérons avoir maintenant contrecarré.

M. Garneau: Serait-il possible d'appliquer la règle de anti-évitement qui a été proposée dans le Livre blanc sans modifier la Loi comme telle?

M. MacIntosh: En utilisant la règle anti-évitement proposée plutôt que d'apporter tous ces changements?

M. Garneau: En effet.

M. MacIntosh: Je ne le pense pas. Ces règles visent non seulement des situations d'évitement fiscal, mais aussi des cas où cet évitement n'est pas recherché, les avantages obtenus étant alors imprévus. Par exemple, lorsqu'une corporation prend le contrôle d'une autre, elle ne peut reporter les pertes de cette dernière, même si la prise de contrôle n'avait pas comme objectif principal l'utilisation des pertes. En théorie, ces dernières ayant été subies par une personne, le nouveau groupe ayant acquis la corporation ne devrait pas pouvoir s'en prévaloir. Ces règles ne font qu'augmenter le nombre de cas où ce genre de théorie et de principe devrait s'appliquer.

Le président: Comment délimitez-vous les pertes? Autrement dit, vous dites que les pertes au titre de la recherche et du développement peuvent être déduites mais uniquement du revenu tiré de l'entreprise à laquelle elles se rapportent.

M. MacIntosh: C'est exact.

Le président: Comment procédez-vous? Comment partagez-vous ces éléments?

M. MacIntosh: Au moment de la prise de contrôle, on connaît le total des dépenses de recherches scientifiques. A l'avenir, nous pourrions calculer le revenu de l'entreprise à laquelle se rapportent ces dépenses de

[Texte]

future. The pool of scientific research expenditures could be claimed in future but only to the extent of the future income.

The Chairman: All right, but it is a pool of scientific research expenditures.

Mr. MacIntosh: Yes.

The Chairman: It is all in the same pool, even though it may have been different classes of scientific research done by the company being taken over. How do you tie it to the research? How do you tie your profit to the research?

Mr. MacIntosh: The amount of the pool for each business of the taxpayer can be calculated and then—

The Chairman: The pool will be calculated. How do you calculate the profit, how it derives and how the profit is used? The tax payable is killed by the application of the credits. How do you tie in the research to the business and determine when somebody earned a profit from a research activity that took place and when they earned it from some other activity?

In an amalgamation, you amalgamate. If you have two eggs and break them to make an omelet, how do you tell which egg you are tasting when you bite into the omelet?

Mr. MacIntosh: I agree it would be a very serious problem. Practically speaking it would be almost impossible to separate out the income that was derived from the original business from the income of this perhaps merged, larger business in the future. The rules provide that the scientific research expenditures can be claimed in future years against income of the same business or similar business. It is only when you clearly have a different business in the future that the scientific research expenditures cannot be claimed against that income. Because of the concern you raise, the rules provide for an offset against similar businesses. It is because of this mixing of activities.

• 1045

The Chairman: I am not saying it could happen, but Mitel was at our hearings saying they have a pile of these ITCs which are going to fall off the end of the hill. Suppose they were taken over by Bell Canada, for example, gobs of taxable income... It is obviously in the telephone business and could use all that scientific research. They could use all these ITCs.

Mr. MacIntosh: Assuming it is the same sort of business, you are quite correct. Those old ITCs could be claimed virtually without limit following the takeover. Although one might argue in the purest tax policy sense that some way should be found to restrict those ITCs to the very same income produced by the original outlay, it is not possible to do it. I guess there is an overriding

[Traduction]

recherches scientifiques. Il sera aussi possible de demander des déductions pour ces dernières, mais uniquement à concurrence du revenu de cette entreprise.

Le président: Très bien, mais il s'agit d'un ensemble de dépenses au titre de la recherche scientifique.

M. MacIntosh: Oui.

Le président: Elles font toutes partie d'un même ensemble, même si la société qui a été absorbée poursuivait différentes catégories de recherches scientifiques. Comment établissez-vous un lien entre la recherche et le profit?

M. MacIntosh: On peut calculer le total pour chaque activité du contribuable pour ensuite...

Le président: Le total sera calculé. Mais comment établissez-vous les profits, leur origine et la façon dont ils sont utilisés? L'impôt à payer est annulé par l'application des crédits. Dans ce genre de circonstances, et pour une société donnée, comment faites-vous correspondre les profits réalisés et les activités de recherche entreprises?

Dans une fusion, vous ajoutez le tout. Si vous cassez deux oeufs pour en faire une omelette, comment pouvez-vous dire quel oeuf vous êtes en train de goûter lorsque vous prenez une bouchée d'omelette?

M. MacIntosh: Je conviens que ceci est un problème très sérieux. Sur le plan pratique, il serait pratiquement impossible de séparer le revenu de l'entreprise initiale de celui qu'obtiendra à l'avenir cette entreprise plus vaste résultant de la fusion. La règle stipule qu'il est possible de demander des déductions au titre des dépenses de recherches scientifiques dans les années ultérieures à concurrence du revenu tiré de la même entreprise ou d'une entreprise semblable. C'est seulement lorsque l'entreprise est clairement différente que ses dépenses de recherches scientifiques ne peuvent être déduites de son revenu. Compte tenu de la préoccupation que vous avez soulevée, les règles prévoient une défalcation pour des entreprises semblables. C'est en raison de ce mélange d'activités.

Le président: Je ne dis pas que cela pourrait se produire, mais lors de nos audiences, Mitel nous a dit avoir énormément de CII qui allaient complètement disparaître. Supposons que cette compagnie soit absorbée par Bell Canada, par exemple, qui a énormément de revenu imposable... Ouvrant bien sûr dans le secteur téléphonique, Bell pourrait utiliser toute cette recherche scientifique. Elle pourrait utiliser tous ces CII.

M. MacIntosh: En supposant qu'il s'agisse d'une entreprise similaire, vous avez tout à fait raison. Il serait possible de demander pratiquement tous ces anciens crédits, sans limite après la prise de contrôle. On pourrait cependant dire que sur le plan tout à fait théorique, par rapport à la politique fiscale, il faudrait trouver le moyen de limiter ces CII aux seuls revenus correspondants, mais

[Text]

policy concern that where you have a business with losses or tax credits being carried on by a corporation, it is a desirable thing to see that business turned around. It may often involve a takeover of the business. Therefore we do not have the restrictions applying to that situation.

The Chairman: That is the investment tax credit. How do you hedge in real business losses against an amalgamation?

Mr. MacIntosh: It is the same sort of principle. Those losses can be claimed in the future, but only to the extent of income from the business in which the losses originally arose or income from any similar business.

The Chairman: You are saying that as long as there is a takeover by someone in a similar business, all the losses and all the ITCs can be carried over.

Mr. MacIntosh: That is correct.

The Chairman: How do you describe it in a statute?

Mr. MacIntosh: It is described in subsection 111.(5) of the Income Tax Act. I guess it is in technical language. I was saying the losses may be claimed in the future, but only to the extent of income from the original business in which the losses arose or from a similar business.

Mr. Farber: Mr. Chairman, as Mr. MacIntosh pointed out about the loss-trading rules, there are quite a number of principal clauses as well as a number of consequential clauses which relate to what he was describing. In addition you have a number of other motions on these provisions. They can be found on pages 58, 80, 103 and 133.

The Chairman: The next issue is court tax and corporate distributions.

Mr. Farber: Mr. Chairman, this is a provision announced by a press release on November 27, 1986. It is a provision designed to protect against the avoidance of tax on dividend distribution by public corporations. The measure takes the form of a special tax paid by public corporations on certain open-market purchases of its shares. The principal clause is clause 57 which amends section 183.1 of the act. I will ask Mr. Conway to answer any questions you might have on it.

Mr. Conway: Basically this new Part II.1 is an anti-avoidance rule. It is to stop the conversion of surplus distributions from a corporation to shareholders or individuals as exempt income in the form of proceeds of disposition of a share.

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The rule is not unlike an existing rule in subsection 247.(1) of the act, with one major exception. The proxy for the shareholders' tax is collected at the corporate level

[Translation]

ce n'est pas possible. Lorsqu'une corporation subit des pertes ou qu'elle obtient des crédits d'impôt, il est essentiel que ses activités puissent s'améliorer, ce qui implique souvent sa prise de contrôle par une autre société. Par conséquent, nous n'avons pas prévu de restriction dans ce genre de situation.

Le président: Il s'agit là du crédit d'impôt à l'investissement. Quel traitement réservez-vous aux pertes réelles de l'entreprise, en cas de fusion?

M. MacIntosh: Le même principe s'applique. Il sera possible de demander la déduction de ces pertes à l'avenir, mais seulement à hauteur des revenus tirés de l'entreprise à laquelle elles se rapportent, ou des revenus d'une entreprise semblable.

Le président: Autrement dit, aussi longtemps que la prise de contrôle se fait par quelqu'un dont l'entreprise est semblable, toutes les pertes et tous les CII peuvent être reportés.

M. MacIntosh: C'est exact.

Le président: Où est-ce stipulé?

M. MacIntosh: Au paragraphe 111.(5) de la Loi de l'impôt sur le revenu. Son libellé est assez technique. Je dis qu'à l'avenir, il sera possible de demander la déduction des pertes, mais seulement à hauteur des revenus tirés de l'entreprise initiale à laquelle ces pertes se rapportent, ou d'une entreprise semblable.

M. Farber: Monsieur le président, comme l'a indiqué M. MacIntosh à propos des règles sur les reports des pertes, il se présente un très grand nombre de dispositions directes et indirectes qui traitent de ce qu'il a décrit. En plus, il se trouve aux pages 58, 80, 103 et 133 un certain nombre d'autres motions sur ces dispositions.

Le président: Nous parlerons maintenant de l'impôt sur certaines distributions de surplus.

M. Farber: Monsieur le président, un communiqué de presse du 27 novembre 1986 annonçait déjà cette disposition. Elle constitue une protection contre l'évitement fiscal en cas de distribution de dividendes par des corporations publiques. Ces dernières paient un impôt spécial en cas d'achat de ses actions sur le marché libre. La principale disposition est l'article 57 qui modifie l'article 183.1 de la loi. Je demanderais à M. Conway de répondre aux questions que vous voudriez lui poser à ce sujet.

M. Conway: Essentiellement, cette nouvelle partie II.1 constitue une règle anti-évitement. Il s'agit d'empêcher que les surplus distribués par une corporation à des actionnaires ou à des particuliers ne le soient sous forme de produit, non imposable, de la disposition d'une action.

Cette règle se compare à celle qui existe au paragraphe 247.(1) de la loi, à une grande exception près. Un impôt spécial est prélevé au niveau des sociétés plutôt qu'à celui

[Texte]

as opposed to the individual level. This was necessary because of an administrative problem that Revenue Canada had with respect to identifying the individual shareholders involved in a surplus-stripping situation, finding them, and then taxing them. This rule states that where it is reasonable to consider that one of the main purposes of a series of transactions or events is to distribute surplus as proceeds of disposition of a share in order to avoid the tax on the dividend income by individual shareholders, then the company will pay a tax of 50% of the amount of what the dividend would have been.

That is basically an overview of what the rule says. The reason for the rule was that there were practical difficulties with administering the existing rule in subsection 247.(1) of the act.

The Chairman: How does this particular stripping operation take place?

Mr. Conway: This rule applies both to public and private companies. Let us say that I was a public company and I normally pay a dividend of \$100 a share. Everybody knows that the capital gains exemption exists. Let us say they decide to avoid paying a taxable dividend by taking advantage of the capital gains exemptions. What they do is declare a stock dividend. They pay a stock dividend share with a paid up capital of 1¢, but with a redemption price of \$100. Then, after paying these stock dividend shares, they go to the open marketplace and buy them back, or set up a sister company to buy the shares, thus making capital gains treatment possible.

You have converted a \$100 dividend into a 1¢ dividend and a \$99.99 capital gain. This rule says that, where a company does this, the company will pay a tax of 50% of the \$99.99 as a proxy for the shareholder tax.

The Chairman: When you get to the two-thirds inclusion rule in the white paper, you virtually have equality between dividends and capital gains. Do you need this section?

Mr. Conway: We need this section as long as people have capital gains exemption room. Regardless of the fact that capital gains are taxed at two-thirds, if the two-thirds included in income are not taxable because of the capital gains exemption, we will need this rule.

The Chairman: But you only get \$100,000. That is nothing now.

Mr. Conway: We do not expect this rule to collect any tax. We do not expect people to do it anymore because of the heavy penalty associated with it. If the rule works properly, we will not collect any tax, because it will be big enough to scare people away from doing these deals.

[Traduction]

des particuliers actionnaires. C'était nécessaire en raison d'un problème administratif qu'avait Revenu Canada pour déterminer quels actionnaires avaient bénéficié du dépouillement de surplus, pour les trouver et les imposer. Cette règle stipule que lorsqu'il est raisonnable de considérer que l'une des principales raisons d'une série de transactions ou d'événements est de distribuer des surplus comme produit de la disposition d'une action et ce afin que des particuliers actionnaires évitent de payer l'impôt sur les dividendes, l'entreprise paiera un impôt équivalent à la moitié de la valeur qu'aurait eu le dividende.

Je vous ai présenté là les grandes lignes de cette règle. Elle a été adoptée parce qu'il était difficile en pratique d'appliquer la règle existant au paragraphe 247.(1) de la loi.

Le président: Comment se fait cette opération de dépouillement?

M. Conway: Cette règle s'applique aux sociétés publiques et privées. Prenons l'exemple d'une société publique qui verse normalement un dividende de 100\$ par action. Tout le monde connaît l'existence de l'exemption sur les gains en capital. Supposons qu'elle décide d'éviter de payer un dividende imposable en profitant de l'exonération des gains en capital. Elle déclare donc un dividende en actions. Elle paie un dividende en actions dont le capital versé est de 1¢, et dont le prix de rachat est de 100\$. Ensuite, après avoir versé ce type de dividendes en actions, elle rachète les actions sur le marché libre, à moins qu'elle ne crée une société soeur pour acheter les actions, ce qui permettrait la réalisation d'un gain en capital.

Elle converti ainsi un dividende de 100\$ en un dividende de 1¢ avec un gain en capital de 99.99\$. La règle stipule que lorsqu'une compagnie procède ainsi, elle devra payer un impôt spécial de 50 p. 100 sur ces 99.99\$, en remplacement de l'impôt qu'aurait dû payer l'actionnaire.

Le président: Avec la règle de l'inclusion des deux tiers dans le Livre blanc, on en arrive pratiquement à l'égalité entre les dividendes et les gains en capital. Avez-vous besoin de cet article?

M. Conway: Nous en aurons besoin tant que les gens n'auront pas utilisé la totalité de leur exemption pour gains en capital. Si les deux tiers inclus au revenu ne sont pas imposables en raison de l'exemption pour gains en capital, nous aurons besoin de cette règle.

Le président: Mais l'exonération n'est que de 100,000\$. Ce n'est rien maintenant.

M. Conway: Nous ne nous attendons pas à ce que cette règle permette de prélever de l'impôt. Les gens ne devraient sans doute plus agir ainsi puisqu'ils seront lourdement pénalisés. Si la règle fonctionne bien, nous ne prélèverons pas d'impôt, car les gens auront suffisamment peur pour ne plus agir ainsi.

[Text]

Mrs. Collins: Who has been doing this? Has this been going on for a little while, or is it one of these new things?

Mr. Conway: No, there has been a lot of tax avoidance going on. These schemes have been marketed by high-priced accountants and lawyers.

Mrs. Collins: But is it new?

Mr. Conway: It is about a year now since we reacted to it, but it was in high gear for a while.

Mrs. Collins: So it was stopped as soon as the ways and means motion came in.

Mr. Conway: Yes.

Mrs. Collins: Did you get much reaction?

Mr. Conway: Yes, we had quite a heavy reaction. It was very unpopular, but that is because it was effective.

The Chairman: You have had some reaction because you make the thing apply to private corporations.

• 1055

Mr. Conway: This is right. There was some confusion when the release—

The Chairman: Why did you do it?

Mr. Conway: Because in both private and public corporations—

The Chairman: In a private corporation, a man can make his capital gain and he can make it once.

Mr. Conway: Yes. I can give you some—

The Chairman: He can pay the dividend out. The white paper, in effect, is the same.

Mr. Conway: It is not the same when we have the existence of the capital gains exemption. For example, in private company scenarios, owners were having themselves and their employees subscribe for preference shares in the private company and paying stock dividends with a 1c paid-up capital and this is the amount of the dividend you pay tax on. However, the redemption price of the preferred shares was based on the profit of the company. Once the profit of the company was determined, they set up a sister company to buy the shares and they bought them based on the share of the profit they agreed to split it up on, thereby converting what would have been dividend income into capital gains.

The Chairman: What did they use for money?

Mr. Conway: They used the profits of the company. Basically, they are converting dividends into exempt capital gains.

The Chairman: When you pay the money out to somebody, you have lost the money and you do not have it any more.

[Translation]

Mme Collins: Qui a fait cela? Est-ce quelque chose de nouveau ou qui a existé pendant un certain temps?

M. Conway: Non, il y a eu beaucoup d'évitement fiscal. Ces stratagèmes ont été vendus par des comptables et des avocats qui se font payer très cher.

Mme Collins: Mais est-ce quelque chose de nouveau?

M. Conway: Nous y avons réagi depuis environ un an maintenant, mais cela se faisait beaucoup pendant un certain temps.

Mme Collins: Tout cela a cessé avec le dépôt de la motion des voies et moyens.

M. Conway: En effet.

Mme Collins: Y a-t-il eu beaucoup de réaction?

M. Conway: Oui, et assez forte. C'était une mesure très impopulaire, mais parce qu'elle était efficace.

Le président: Vous avez eu certaines réactions parce que vous avez fait s'appliquer la chose à des corporations privées.

M. Conway: C'est exact. Il y a eu une certaine confusion lorsque le communiqué...

Le président: Pourquoi avez-vous fait cela?

M. Conway: Car dans les corporations privées et publiques...

Le président: Une corporation privée peut réaliser un gain en capital, mais seulement une fois.

M. Conway: Oui. Je peux vous donner quelque...

Le président: Il lui est alors possible de verser des dividendes. Les dispositions du Livre blanc sont les mêmes à cet égard.

M. Conway: Mais la situation est différente avec l'exemption pour gain en capital. Par exemple, dans le cas des sociétés privées, les propriétaires et leurs employés achetaient des actions privilégiées dans la société qui versait des dividendes en actions dont le capital versé était de 1c., et c'est sur ce montant de dividende que l'impôt était payé. Cependant, le prix de rachat de ces actions privilégiées était fondé sur le profit de la société. Une fois que ce profit était déterminé, ils constituaient une société soeur qui achetait les actions, et eux les rachetaient en fonction de la part des profits qu'ils avaient convenu de se partager, convertissant par là ce qui aurait dû être des revenus de dividendes en gains en capital.

Le président: Qu'ont-ils utilisé comme argent?

M. Conway: Les profits de la société. Essentiellement, ils convertissent des dividendes en gains en capital exonérés d'impôt.

Le président: Lorsque vous versez l'argent à quelqu'un, vous le perdez, vous ne l'avez plus.

[Texte]

Mr. Conway: This is right but the individual who received it receives it as an exempt capital gain rather than in its true form, which is as a taxable dividend.

Mr. Garneau: Would you need this clause even with an anti-avoidance rule?

Mr. Conway: This rule is more specific. As I say, it is not intended to collect tax; it is intended to stop tax-avoidance manoeuvres.

Mr. Garneau: The Department of National Revenue would find it easier with this clause than to go through the anti-avoidance.

Mr. Conway: This rule has been in public domain for a year. The anti-avoidance rule was at that time not in a form as we know it now. It may catch it. It will catch it particularly if it is to avoid tax.

Mr. Garneau: It seems okay to me.

Mr. Farber: I would remind you, Mr. Chairman, that there is a motion on page 108, which is a clarifying and relieving motion to this section. It removes certain references. It narrows the purpose test that determines whether the special tax will apply, and it generally clarifies the circumstances in which the tax applies.

The Chairman: What would happen if we changed the section so that it applied only in 1987 after the ways and means motions were out? We did not have a detailed ways and means motion on the press release here. You have left a whole lot of situations where private corporations and others, according to some of the research we have from our consultants, are left with the possibility that their transactions innocently done in 1986 may have triggered attacks.

• 1100

Mr. Conway: As I said, there is a rule now in the act, subsection 247.(1), which is substantially the same. But for some reason tax planners who are aware of the existence of this rule felt comfortable with advising clients on how to avoid tax, knowing the existence of that rule, knowing the practical difficulties Revenue had with applying it. I do not know... Should we condone tax avoidance, given that they knew it was tax avoidance?

The Chairman: I do not know why the hell you did not prosecute under subsection 247.(1) and leave the whole thing alone. Why did it happen?

Mr. Conway: Why?

The Chairman: Yes.

Mr. Conway: Well, I guess it happened because of the administrative difficulties with subsection 247.(1). It happened because some people—

[Traduction]

M. Conway: C'est exact, mais celui qui le reçoit le touche comme gain en capital exonéré d'impôt plutôt que sous sa forme véritable de dividende imposable.

M. Garneau: Auriez-vous besoin de cette disposition même avec une règle anti-évitement?

M. Conway: Cette règle est plus précise. Encore une fois, elle n'a pas pour objet de prélever l'impôt mais de mettre fin aux manoeuvres d'évitement fiscal.

M. Garneau: Il serait plus facile au ministère du Revenu national d'appliquer cet article que la règle anti-évitement.

M. Conway: Cette règle est du domaine public depuis un an. La règle anti-évitement n'était pas alors sous la forme que nous connaissons aujourd'hui. Elle pourra être efficace, particulièrement contre les manoeuvres d'évitement.

M. Garneau: Ça me paraît être une bonne chose.

M. Farber: Je voudrais vous rappeler, monsieur le président, qu'il se trouve à la page 108 une motion qui précise et qui allège cet article. Elle en retire certaines références. Elle limite la portée du critère d'objet commercial qui sert à déterminer si l'impôt spécial s'appliquera et précise, de façon générale, dans quelles circonstances appliquer l'impôt.

Le président: Que se passerait-il si nous modifions l'article pour qu'il ne s'applique qu'en 1987, après la publication des motions de voies et moyens? Ce communiqué de presse ne présentait pas une motion de voies et moyens très détaillée. D'après les recherches qu'ont effectuées nos experts-conseils, de nombreuses corporations privées et d'autres encore risquent de tomber sous le coup de ces dispositions en raison de transactions qu'elles ont faites en toute innocence en 1986.

M. Conway: Encore une fois, il y a actuellement dans la loi, au paragraphe 247.(1), une règle qui est substantiellement la même. Mais pour certaines raisons, les conseillers fiscaux qui savent l'existence de cette règle, ne se sont pas gênés pour donner des conseils à leurs clients quant à la façon d'éviter l'impôt, alors qu'ils connaissaient encore, une fois, l'existence de cette règle, de même que des difficultés pratiques qu'avait Revenu Canada pour l'appliquer. Je ne sais pas... Devrions-nous tolérer l'évitement fiscal, puisqu'ils savaient bien ce qu'ils faisaient?

Le président: Je ne sais vraiment pas pourquoi vous ne les avez pas poursuivis en vertu du paragraphe 247.(1) au lieu de tout compliquer. Pourquoi les choses se sont-elles passées ainsi?

M. Conway: Pourquoi?

Le président: Oui.

M. Conway: Sans doute en raison des difficultés administratives que présente le paragraphe 247.(1). Cela s'est passé parce que certains...

[Text]

The Chairman: How do you hope to have less administrative difficulty with section 247.(1) by passing another section? It is horrendously complicated and equally difficult to understand.

Mr. Conway: It is one thing to say, yes, there is a strip, and it is another thing identifying the shareholders involved, because shares and shareholders change daily—hourly sometimes.

The Chairman: Yes, I know but what you have done is you have gone after the stripper instead of the strippee?

Mr. Conway: What we have gone after is basically—

The Chairman: The stripper does not have any money anymore. He does not have any clothes anymore, and then you go after the stripper and say: Well, you stripped; therefore, strip again.

Mr. Conway: Well, the stripper hopefully has some money left.

The Chairman: Well, why do you say hopefully? Why would you not go after the person who illegally or improperly or inopportunistically got the dough?

Mr. Conway: Because in the scenarios involved, it is the person who is stripping in favour of the shareholders who hired the high-paid help to show them how to do it, who actually did the dividend, who conducted the series of transactions—

The Chairman: Well, why would you not go after the guy who benefited from it—in other words, the taxpayers who made this huge capital gain and disallow their tax returns? What you are effectively saying is that going this way about it, we just will not catch those fellows; we will let them carry on with their ill-gotten gain.

Mr. Conway: Yes, and basically we are saying—

The Chairman: Of course if they stripped her out real good, there is nothing there to collect, because the company will have been stripped bare.

Mr. Conway: Yes. Well, in these cash-rich scenarios where they are stripping, there is normally lots of cash.

The Chairman: Left?

Mr. Conway: Left, and I guess we always have subsection 247.(1) to go after individuals in cases where there is not cash tax left in the company to pay the tax.

But the object is the people who hire the tax planners and the people who conduct the series of transactions or events which achieve the results are basically the companies. They hire them, and now we are taxing the people who conduct the series of transactions or events. What this has done is make it so that all we have to do is identify the one person. It has basically put a stop to it.

[Translation]

Le président: Espérez-vous avoir moins de difficulté administrative avec cette disposition si vous en adoptez une autre? Elle est extrêmement compliquée et aussi difficile à comprendre.

M. Conway: C'est facile de dire oui, il y a eu dépouillement, mais c'est autre chose que d'identifier les actionnaires, car ils changent chaque jour, voire même toutes les heures parfois.

Le président: Oui, je le sais, mais vous vous en êtes pris à l'effeuilleuse plutôt qu'aux bénéficiaires de ces manoeuvres.

M. Conway: Ce que nous avons voulu faire essentiellement. . .

Le président: L'effeuilleuse n'a plus d'argent, or, c'est à elle que vous vous en prenez, pour la mettre à nouveau à contribution.

M. Conway: Il faut espérer qu'il lui reste quand même un peu d'argent.

Le président: Pourquoi dites-vous que vous l'espérez? Mais pourquoi ne pas vous en prendre à ceux qui ont pris l'argent de façon illégale ou anormale ou inopportune?

M. Conway: Parce que dans la situation évoquée, la personne même qui effectue le dépouillement en faveur des actionnaires a engagé des conseillers grassement énumérés pour lui montrer comment faire, et elle a en outre versé les dividendes et effectué toute la série de transactions. . .

Le président: Mais pourquoi ne pas vous en prendre à ceux qui ont bénéficié de tout cela—autrement dit, aux contribuables qui ont réalisé ce gain en capital considérable, en contestant leur déclaration d'impôt? Or vous dites qu'en procédant ainsi, vous n'allez pas vous en prendre à ces gens à qui vous allez laisser leurs biens mal acquis.

M. Conway: Oui, et nous disons essentiellement. . .

Le président: Bien sûr, s'ils ont complètement dévêtu l'effeuilleuse, il ne reste rien à prélever, puisque la société se trouve tout à fait dénudée.

M. Conway: Oui. Dans tous ces scénarios d'effeuillage de richesse, il a normalement beaucoup de liquidités.

Le président: Il en reste?

M. Conway: Oui, et nous disposons toujours du paragraphe 247.(1) pour nous en prendre aux intéressés au cas où la société n'aurait plus d'argent liquide pour payer l'impôt.

Mais il n'en reste pas moins que ceux qui embauchent des planificateurs d'impôt et ceux qui orchestrent la série des transactions ou d'événements qui aboutissent à ces résultats sont des sociétés. Elles engagent ces personnes, et quant à nous, nous imposons les personnes qui orchestrent cette série de transactions ou d'événements. Ainsi, nous avons réussi à identifier l'intéressé. Et nous avons essentiellement réussi à bloquer ces manoeuvres.

[Texte]

The Chairman: Okay. There is one more section I think.

Mr. Farber: Mr. Chairman, as I indicated, there is one other motion on page 108 dealing with this particular provision.

The Chairman: Yes. That is in the amendments, is it?

Mr. Farber: That is right.

The Chairman: What does it do?

Mr. Conway: Basically, there is a number of them, and they are basically technical, with the exception that we have changed the purpose test from "one of the purposes" to "one of the main purposes". Because the rule is so tight and it has caused some anguish out there, we have put it as "one of the main purposes", so as to provide some scope for borderline cases to get out of the rule.

The Chairman: It would seem to me that if we can get a new corporate tax regime in and keep the capital gains at two-thirds or something of that nature, or even capital gains at 100% subject to indexation of the capital base, you solve this problem, because the tax is identical.

Mr. Conway: That is right. If all capital gains were taxed at the equivalent rate of dividend income, there would be no reason to strip. You are right.

The Chairman: Yes. Well, since we are doing that—

• 1105

Mr. Garneau: It has not been done yet.

Mr. Conway: We need this now.

The Chairman: You are going to provide for getting rid of these sections in a Ways and Means motion for the new bill. Do you guys ever think about getting rid of some of this bumb?

Mr. Conway: Yes, all the time. We would like to get rid of a lot of this stuff.

The Chairman: If you get rid of a lot of it and we could start over again, we would not have to read it. It is too difficult.

Mr. Conway: I would enjoy not getting the thousands of phone calls I get on this stuff. I would like to do it some day.

The Chairman: What are unclaimed dividends, interest and proceeds all about?

Mr. Farber: Mr. Chairman, the principal clause is in clause 51.(2). Basically it authorizes a special withholding tax on unclaimed dividends, interest and

[Traduction]

Le président: Très bien. Il reste une autre disposition je pense.

M. Farber: Monsieur le président, comme je l'ai déjà dit, à la page 108, une autre motion traite de cette disposition.

Le président: En effet. C'est dans la liasse de modifications n'est-ce-pas?

M. Farber: Oui.

Le président: De quoi s'agit-il?

M. Conway: Essentiellement, il y a un certain nombre de modifications qui sont d'ordre technique. Sauf que nous avons modifié le critère d'objet en passant de «l'un des objets» à «l'un des principaux objets». Étant donné que la règle est très stricte, elle a suscité certaines inquiétudes et nous avons donc parlé de «l'un des principaux objets» afin de prévoir une certaine souplesse pour les cas limites, afin qu'ils puissent pas être visés par la règle.

Le président: Il me semble que si nous pouvons adopter un nouveau régime fiscal pour les sociétés et maintenir le taux d'inclusion des gains en capital aux deux tiers ou même à 100 p. 100, sous réserve de l'indexation de la base de capital, nous résoudrons alors cette difficulté, puisque l'impôt est identique.

M. Conway: C'est exact. Si tous les gains en capital étaient imposés à un taux équivalent à celui des dividendes, le dépouillement ne serait pas du tout nécessaire. Vous avez raison.

Le président: Oui. Eh bien, étant donné que nous faisons cela...

M. Garneau: Cela n'a pas encore été fait.

M. Conway: Nous en avons besoin maintenant.

Le président: Vous allez faire le nécessaire pour supprimer ces articles dans une motion de voies et moyens pour le nouveau projet de loi. Avez-vous déjà songé à vous débarrasser d'une partie de ces articles veteux?

M. Conway: Nous ne cessons d'y songer. Il y a beaucoup de choses dont nous aimerions nous débarrasser.

Le président: Si vous y parvenez et si nous pouvons recommencer à neuf, cela nous éviterait de devoir les lire. C'est trop difficile.

M. Conway: J'aimerais bien ne pas recevoir les milliers de coups de téléphone que cela occasionne. J'aimerais y parvenir un jour.

Le président: De quoi s'agit-il quand on parle de dividendes d'intérêts et de produits de dispositions de propriétaires inconnus.

M. Farber: On trouve l'essentiel au paragraphe 51.(2). Ce paragraphe autorise à toutes fins utiles une retenue d'impôt sur les dividendes, les intérêts et le produit de

[Text]

proceeds of disposition in terms of property where the beneficial owner of the property is unknown. In essence it applies to stockbrokers or dealers who may hold portfolios of different stocks and bonds when the beneficial owner is unknown.

At present in the Income Tax Act there is a tax of 25% and on dividends. The rate is being increased to 33.3% to approximate the top marginal rate applicable to the receipt of dividends. Also a tax is being proposed for interest and proceeds of disposition of any property when the beneficial owner is unknown. In these cases the tax to be paid on behalf of the beneficial owner is equivalent to 50%.

Mr. Garneau: The fact that the beneficiary is unknown does not prevent that person from getting the benefit of it. It is unknown to whom? Is it unknown to the department?

Mr. Farber: It is unknown to the stockbroker holding the stock or the bond.

Mr. Garneau: If he retains 50%, the other 50% will be paid to someone. Where will the other 50% go?

Mr. Farber: It goes into the firm's hands presumably until such time as the beneficial owner declares himself or is known. In the meantime the disposition, which if you knew who the beneficial owner was would have given rise to a tax. . . He is paying the equivalent amount of tax as if the owner is known and this tax would be to the credit of that person whenever he becomes known.

Mr. Garneau: If he is taxed at the lower rate than the withholding rate, will he get the benefit of it?

Mr. Farber: Do you mean the particular individual?

Mr. Garneau: The withholding tax is 50% and if this—

Mr. Farber: If the beneficial owner ultimately comes around and his marginal rate is lower than the 50% rate, he would get a refund.

Mr. Minaker: That is a good question. In subsection 153.(4) you state that it extends this withholding tax obligation to all taxpayers who after 1984 and before. . . I wonder if you can explain the date of 1984.

Mr. MacIntosh: The 1984 date was chosen because it coincides with the reassessment period, the three years Revenue Canada is permitted to look back.

Mrs. Collins: Why would the beneficiaries be unknown? What sort of circumstances would lead to this?

Mr. MacIntosh: For example, shares held by a broker may be sold on the open market. The broker would not know who the ultimate purchaser of those shares was, but just following that transaction, the broker may receive a dividend cheque in terms of those shares. The rightful owner of the dividends would be unknown to the broker. The same thing could arise when bearer bonds are sold and an interest cheque is received later.

[Translation]

disposition d'un bien de propriétaire inconnu. Essentiellement, cela vise les courtiers et les négociants qui détiennent des portefeuilles de diverses actions et obligations pour le compte d'un propriétaire inconnu.

Pour l'instant, la Loi de l'impôt prévoit un impôt de 25 p. 100 sur les dividendes. Ce taux est relevé à 33,3 p. 100, c'est-à-dire l'équivalent du taux marginal maximal qui s'applique. D'autre part, on propose que les intérêts et le produit de disposition d'un bien dont le propriétaire est inconnu soient désormais imposés, et le taux est équivalent à 50 p. 100.

M. Garneau: Ce n'est pas parce que le véritable propriétaire est inconnu qu'il ne touche pas ces sommes. De qui est-il inconnu? Est-il inconnu du Ministère?

M. Farber: Il est inconnu du courtier qui détient l'action ou l'obligation.

M. Garneau: Si le courtier garde 50 p. 100 des intérêts ou du produit, le reste sera payé à quelqu'un. À qui?

M. Farber: Cette somme reste entre les mains de la maison de courtage jusqu'à ce que le véritable propriétaire soit retrouvé ou se présente. Entre-temps, le produit de disposition d'un bien, qui, si le véritable propriétaire avait été connu, aurait été imposé. . . Le courtier verse l'impôt équivalent à ce que le propriétaire aurait versé s'il avait été connu et cet impôt est crédité au compte de cette personne jusqu'à ce qu'elle se présente.

M. Garneau: S'il devait être imposé à un taux inférieur à la retenue d'impôt, ferait-on le rajustement?

M. Farber: Vous parlez du propriétaire?

M. Garneau: La retenue d'impôt est de 50 p. 100 et si. . .

M. Farber: Si le véritable propriétaire se fait connaître ultimement, et si son taux marginal est inférieur à 50 p. 100, il obtiendra un remboursement.

M. Minaker: C'est une bonne question. Au paragraphe 153.(4), vous dites que cette retenue d'impôt vise tous les contribuables qui après 1984 ou avant. . . Pouvez-vous nous expliquer ce que signifie cette date de 1984.

M. MacIntosh: Cette année-là marque le début de la période de réévaluation, c'est-à-dire les trois années au cours desquelles Revenu Canada peut faire des rajustements.

Mme Collins: Pourquoi y aurait-il un propriétaire inconnu? Dans quelle genre de situation cela arrive-t-il?

M. MacIntosh: Il se peut qu'un courtier vende des actions à la bourse. Le courtier ne sait pas nécessairement qui est l'acheteur de ces actions et juste après la transaction, il se peut qu'il reçoive un chèque de dividendes visant ces actions. Le courtier ne connaît pas le véritable propriétaire de ces dividendes. La même chose peut arriver quand des obligations au porteur sont vendues et qu'un chèque d'intérêt est acheminé plus tard.

[Texte]

If by the end of the taxation year the broker has not been able to determine who owns the amount and remit it to him, the broker will be required to take this tax at a 33.3% rate of a 50% rate out of the cheque he received and remit it to the government on behalf of the unknown owner.

Mrs. Collins: At present there is a provision to do it at a lower rate.

Mr. MacIntosh: Yes.

Mrs. Collins: How much revenue comes into the government this way?

• 1110

Mr. MacIntosh: I do not think we have any real feeling for how much is involved.

The Chairman: How did you all of a sudden tumble on this one? How did you think about this one?

Mr. MacIntosh: This was brought to our attention by Revenue Canada. I believe there were a number of trust companies and brokers who asked them how these amounts are to be treated. We have now made it clear how they are to be treated.

The Chairman: How does the person who eventually claims the money get the money back? Does the broker give him a T-4 slip showing a remittance of some kind or a withholding? What does he do?

Mr. MacIntosh: I suppose ultimately when the person is located and the amount is paid to him, there would be a T-5 slip and then the person would file with Revenue Canada and get a refund if his rate is lower than the rates provided here.

The Chairman: It is almost for sure to be lower, simply because you have the maximum rates here.

Mr. MacIntosh: Yes. In many cases, it would be. In many cases, of course, since this amount is being added in as really the last amount in computing taxable income, it may well be that the individual's rate is up to these rates.

The Chairman: Have you any idea how much money is involved?

Mr. MacIntosh: I do not believe we do.

The Chairman: Has anybody else any concern about these things? Thank you very much. I do not think there is anything else on this bill at this point.

Mr. Farber: The only thing left outstanding—and I am reluctant to raise it with you—is the ITC part, which you wanted to defer.

The Chairman: We can raise it now, but we are not going to vote on it now.

Mr. Farber: Then, this brings to a conclusion the consideration—

[Traduction]

Si à la fin de l'exercice, le courtier n'a pas trouvé qui est le propriétaire de cette somme, pour la lui remettre, il doit en réserver 33,3 p. 100 ou 50 p. 100, selon le cas, et verser cette somme au gouvernement au nom du propriétaire inconnu.

Mme Collins: Pour l'instant, il existe une disposition semblable mais le taux est inférieur. n'est-ce-pas?

M. MacIntosh: C'est cela.

Mme Collins: Quelles sont les recettes gouvernementales provenant de ces sources?

M. MacIntosh: Il nous serait difficile de la calculer.

Le président: Comment avez-vous soudainement repris cette question? Comment y avez-vous pensé?

M. MacIntosh: C'est Revenu Canada qui nous l'a signalée. Je crois qu'il y a certaines compagnies de fiducie et des courtiers qui avaient posé la question au ministère. Nous avons maintenant éclairci la façon de procéder.

Le président: Comment la personne qui plus tard réclame cet argent doit-elle s'y prendre pour obtenir le remboursement? Est-ce que le courtier lui fournit un feuillet T-4 indiquant la somme retenue? Que doit-il faire?

M. MacIntosh: Je pense que finalement quand une personne est retrouvée et qu'elle reçoit la somme qui lui est due, on lui remet un feuillet T-5 qu'elle doit déposer auprès de Revenu Canada pour obtenir un remboursement si son taux d'imposition est inférieur à celui qui a été appliqué.

Le président: Forcément, ce taux sera inférieur car vous percevez ici le taux maximal.

M. MacIntosh: C'est juste. Dans bien des cas, ce sera ainsi. Bien entendu, puisque cette somme est souvent ajoutée en dernier au revenu imposable, il se peut fort bien que le taux du contribuable soit le taux maximal.

Le président: Savez-vous quelle somme cela représente?

M. MacIntosh: Non.

Le président: Quelqu'un d'autre s'est-il inquiété de cet aspect-là? Merci beaucoup. Je ne pense pas que nous ayons quoi que ce soit à demander à propos de ce projet de loi pour l'instant.

M. Farber: Il reste une chose que j'hésite à soulever et il s'agit de la partie concernant le crédit d'impôt à l'investissement, que vous avez voulu réserver.

Le président: Nous pouvons en parler maintenant mais nous n'allons pas mettre cette question aux voix.

M. Farber: Alors, nous avons terminé l'examen. . .

[Text]

The Chairman: Are there are some amendments to the ITC in this amendment package?

Mr. Farber: No, there are not. We would not dare give you one.

Mrs. Collins: Mr. Chairman, can I call for a vote?

The Chairman: We must have a quorum, Mary. Mr. Warner has an amendment. I have an amendment filed.

Mrs. Collins: Yes, I know. I have seen it.

The Chairman: I think it is a very appropriate amendment. I am in favour of the amendment.

Mr. Farber: The only other thing, Mr. Chairman, is a number of motions in this package that relate to items you had considered previously.

The Chairman: All right, what are they? Do you want to go over those briefly with us?

Mr. Farber: There is one on page 86 dealing with collateralized preferred shares. It merely corrects a cross-reference in the French version of the bill. There is one on page 98 dealing with deposit insurance corporations. There are minor technical changes and certain consequential changes to the motions on deposit insurance corporations. There is one on page 91 dealing with the foreign tax credit, which just corrects a grammatical error in the French version. Most of these changes are highly technical, corrective changes. This is basically it. We have done them all.

I would ask you, Mr. Chairman, to consider moving this package of amendments.

• 1115

The Chairman: I am going to deem them moved, including Mr. Warner's.

Mr. Minaker: And the IBCs are included?

The Chairman: Yes.

Mr. Warner: Would you like that circulated, Mr. Chairman?

The Chairman: Certainly.

We are now going to go in camera. I propose that at the next meeting on this bill we go through it clause by clause. We will be in touch with you, Mr. Farber.

This part of the meeting is adjourned.

[Translation]

Le président: Dans cette liasse d'amendements, y en a-t-il qui concernent le crédit d'impôt à l'investissement?

M. Farber: Non. Nous n'avons pas osé en préparer.

Mme Collins: Monsieur le président, puis-je demander le vote?

Le président: Mary, il faudrait que nous ayons le quorum. M. Warner veut présenter un amendement. Je l'ai reçu.

Mme Collins: Je sais, je l'ai vu.

Le président: Je pense que c'est un amendement tout à fait à propos. Je suis en faveur de cet amendement.

M. Farber: Monsieur le président, je dois vous signaler qu'il y a certaines motions dans cette liasse qui ont trait à des questions que vous avez déjà étudiées.

Le président: Soit, où sont-elles? Voulez-vous nous les expliquer brièvement?

M. Farber: Il y en a une à la page 86 qui concerne les actions privilégiées avec garantie. Elle ne vise qu'à corriger un renvoi qui se trouve dans la version française du projet de loi. Il y en a une autre à la page 98 qui concerne les sociétés d'assurance-dépôts. D'autres apportent des amendements de forme ou corrélatifs aux motions concernant les sociétés d'assurance-dépôts. A la page 91, la motion porte sur le dégrèvement pour impôt étranger; il s'agit d'une correction grammaticale à la version française. La plupart de ces modifications sont purement formelles, des corrections. Elles se bornent à cela. Nous les avons toutes faites.

Monsieur le président, je vous propose de mettre cette liasse d'amendements aux voix.

Le président: Je vais donc considérer qu'une motion a été proposée, y compris pour la proposition de M. Warner.

M. Minaker: Cela inclut les CBI?

Le président: Oui.

M. Warner: Voulez-vous que l'on distribue cela, monsieur le président?

Le président: Certainement.

Nous allons nous réunir à huis clos. Je propose qu'à la prochaine réunion portant sur le projet de loi, nous passions à l'étude article par article. Nous resterons en contact avec vous, monsieur Farber.

Pour ce qui est de la première partie de nos travaux, la séance est levée.



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WITNESSES

*From the Tax Policy and Legislation Branch of the
Department of Finance:*

Len Farber, Director, Tax Policy and Legislation;

John Fuke, Associate to the Director General,
Legislative Affairs Directorate, Revenue Canada;

Harold White, Legislative Counsel;

Carol Muirhead, Senior Tax Policy Officer;

Dan MacIntosh, Senior Tax Policy Officer;

Wally Conway, Senior Tax Policy Officer.

TÉMOINS

*De la Direction de la politique et de la législation de
l'impôt du ministère des Finances:*

Len Farber, directeur, Politique et législation de
l'impôt;

John Fuke, associé du directeur général, Direction des
affaires législatives, Revenu Canada;

Harold White, conseiller législatif;

Carol Muirhead, agent supérieur, Politique de l'impôt;

Dan MacIntosh, agent supérieur, Politique de l'impôt;

Wally Conway, agent supérieur, Politique de l'impôt.

HOUSE OF COMMONS

Issue No. 128

Wednesday, November 25, 1987

Chairman: Don Blenkarn

*Minutes of Proceedings and Evidence of the
Standing Committee on*

Finance and Economic Affairs

CHAMBRE DES COMMUNES

Fascicule n° 128

Le mercredi 25 novembre 1987

Président: Don Blenkarn

*Procès-verbaux et témoignages du Comité
permanent des*

Finances et des affaires économiques

RESPECTING:

Bill C-87, An Act respecting the imposition of duties of customs and other charges, to give effect to the International Convention on the Harmonized Commodity Description and Coding System, to provide relief against the imposition of certain duties of customs or other charges, to provide for other related matters and to amend or repeal certain Acts in consequence thereof

INCLUDING:

Twelfth Report to the House

CONCERNANT:

Projet de loi C-87, Loi concernant l'imposition de droits de douane ou d'autres droits, la mise en oeuvre de la Convention internationale sur le Système harmonisé de désignation et de codification des marchandises, l'exonération de divers droits de douane ou autres, comportant des mesures connexes et modifiant ou abrogeant certaines lois en conséquence

Y COMPRIS:

Douzième rapport à la Chambre

APPEARING:

The Honourable Tom Hockin,
Minister of State (Finance)

WITNESSES:

(See back cover)

COMPARAÎT:

L'honorable Tom Hockin,
Ministre d'État (Finances)

TÉMOINS:

(Voir à l'endos)

Second Session of the Thirty-third Parliament,
1986-87

Deuxième session de la trente-troisième législature,
1986-1987

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Paul McCrossan
George Minaker
Aideen Nicholson
Norman Warner

(Quorum 7)

Marie Carrière

Clerk of the Committee

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George Minaker
Aideen Nicholson
Norman Warner

(Quorum 7)

Le greffier du Comité

Marie Carrière

ORDER OF REFERENCE

ORDRE DE RENVOI

Extract from the Votes and Proceedings of the House of Commons of Monday, November 2, 1987:

"The House resumed debate on the motion of Mr. Hockin, seconded by Mr. Crombie,—That Bill C-87, An Act respecting the imposition of duties of customs and other charges, to give effect to the International Convention on the Harmonized Commodity Description and Coding System, to provide relief against the imposition of certain duties of customs or other charges, to provide for other related matters and to amend or repeal certain Acts in consequence thereof, be now read a second time and referred to the Standing Committee on Finance and Economic Affairs.

After further debate, the question being put on the motion, it was agreed to.

Accordingly, the Bill was read the second time and referred to the Standing Committee on Finance and Economic Affairs."

ATTEST

ROBERT MARLEAU
Clerk of the House of Commons

Extrait des Procès-verbaux de la Chambre des communes du lundi 2 novembre 1987:

«La Chambre reprend le débat sur la motion de M. Hockin, appuyé par M. Crombie,—Que le projet de loi C-87, Loi concernant l'imposition de droits de douane ou d'autres droits, la mise en oeuvre de la Convention internationale sur le Système harmonisé de désignation et de codification des marchandises, l'exonération de divers droits de douane ou autres, comportant des mesures connexes et modifiant ou abrogeant certaines lois en conséquence, soit maintenant lu une deuxième fois et déféré au Comité permanent des finances et des affaires économiques.

Après plus ample débat, cette motion, mise aux voix, est agréée.

En conséquence, ce projet de loi est lu une deuxième fois et déféré au Comité permanent des finances et des affaires économiques.»

ATTESTÉ

Le Greffier de la Chambre des communes
ROBERT MARLEAU

REPORT TO THE HOUSE

Thursday, November 26, 1987

The Standing Committee on Finance and Economic Affairs has the honour to present its

TWELFTH REPORT

In accordance with its Order of Reference of Monday, November 2, 1987, your Committee has considered Bill C-87, An Act respecting the imposition of duties of customs and other charges, to give effect to the International Convention on the Harmonized Commodity Description and Coding System, to provide relief against the imposition of certain duties of customs or other charges, to provide for other related matters and to amend or repeal certain Acts in consequence thereof, and has agreed to report it without amendment.

A copy of the relevant Minutes of Proceedings and Evidence of the Committee (*Issue No. 128 which includes this report*) is tabled.

Respectfully submitted,

DON BLENKARN,
Chairman.

RAPPORT À LA CHAMBRE

Le jeudi 26 novembre 1987

Le Comité permanent des finances et des affaires économiques a l'honneur de présenter son

DOUZIÈME RAPPORT

Conformément à son ordre de renvoi du lundi 2 novembre 1987, votre Comité a étudié le projet de loi C-87, Loi concernant l'imposition de droits de douane ou d'autres droits, la mise en oeuvre de la Convention internationale sur le Système harmonisé de désignation et de codification des marchandises, l'exonération de divers droits de douane ou autres, comportant des mesures connexes et modifiant ou abrogeant certaines lois en conséquence, et a convenu d'en faire rapport sans amendement.

Un exemplaire des procès-verbaux et témoignages pertinents du Comité (*fascicule n° 128 qui comprend le présent rapport*) est déposé.

Respectueusement soumis,

Le président,
DON BLENKARN.

MINUTES OF PROCEEDINGS

WEDNESDAY, NOVEMBER 25, 1987
(196)

[Text]

The Standing Committee on Finance and Economic Affairs met at 3:36 o'clock p.m. this day, in Room 269, West Block, the Chairman, Don Blenkarn, presiding.

Members of the Committee present: Don Blenkarn, Murray Dorin, Simon de Jong and Robert Layton.

Acting Members present: Gabrielle Bertrand for Norman Warner; Ronald A. Stewart for Bill Attewell and Robert L. Wenman for Mary Collins.

In attendance: From the Committee's Research Staff: H. Bert Waslander, Research Director. *From the Research Branch of the Library of Parliament:* Terrence J. Thomas, Research Officer.

Appearing: The Honourable Tom Hockin, Minister of State (Finance).

Witnesses: From the Department of Finance: Dan Hermosa, Counsel, General Legal Services Division; Joe Loomer, Special Advisor, Tariffs Division.

The Order of Reference dated Monday, November 2, 1987, being read as follows:

ORDERED,—That Bill C-87, An Act respecting the imposition of duties of customs and other charges, to give effect to the International Convention on the Harmonized Commodity Description and Coding System, to provide relief against the imposition of certain duties of customs or other charges, to provide for other related matters and to amend or repeal certain Acts in consequence thereof, be referred to the Standing Committee on Finance and Economic Affairs.

Clause 1 was allowed to stand.

On Clause 2

The Minister made an opening statement and with the witnesses, answered questions.

Clause 2 carried.

Clauses 3 to 141 carried severally.

Clause 1 carried.

The Title carried.

Bill C-87 carried.

ORDERED,—That the Chairman report Bill C-87 to the House.

At 4:00 o'clock p.m., the Committee adjourned to the call of the Chair.

Eugene Morawski
Committee Clerk

PROCÈS-VERBAL

LE MERCREDI 25 NOVEMBRE 1987
(196)

[Traduction]

Le Comité permanent des finances et des affaires économiques se réunit, aujourd'hui à 15 h 36, dans la pièce 269 de l'Édifice de l'Ouest, sous la présidence de Don Blenkarn, (président).

Membres du Comité présents: Don Blenkarn, Murray Dorin, Simon de Jong et Robert Layton.

Membres suppléants présents: Gabrielle Bertrand remplace Norman Warner; Ronald A. Stewart remplace Bill Attewell; Robert L. Wenman remplace Mary Collins.

Aussi présents: Du personnel de recherche du Comité: H. Bert Waslander, directeur de la recherche. *Du Service de recherche de la Bibliothèque du Parlement:* Terrence J. Thomas, attaché de recherche.

Comparaît: L'honorable Tom Hockin, ministre d'État (Finances).

Témoins: Du ministère des Finances: Me Dan Hermosa, conseiller juridique, Division des services juridiques généraux; Joe Loomer, conseiller spécial, Division des tarifs.

Lecture de l'ordre de renvoi du lundi 2 novembre 1987 est donnée en ces termes:

IL EST ORDONNÉ,—Que le projet de loi C-87, Loi concernant l'imposition de droits de douane ou d'autres droits, la mise en oeuvre de la Convention internationale sur le Système harmonisé de désignation et de codification des marchandises, l'exonération de divers droits de douane ou autres, comportant des mesures connexes et modifiant ou abrogeant certaines lois en conséquence, soit déferé au Comité permanent des finances et des affaires économiques.

L'article 1 est réservé.

Article 2

Le Ministre fait une déclaration préliminaire, puis lui-même et les témoins répondent aux questions.

L'article 2 est adopté.

Les articles 3 à 141 sont respectivement adoptés.

L'article 1 est adopté.

Le titre est adopté.

Le projet de loi C-87 est adopté.

IL EST ORDONNÉ,—Que le président fasse rapport, à la Chambre, du projet de loi C-87.

À 16 heures, le Comité s'ajourne jusqu'à nouvelle convocation du président.

Greffier de Comité
Eugene Morawski

EVIDENCE

[Recorded by Electronic Apparatus]

[Texte]

Wednesday, November 25, 1987

• 1535

The Chairman: I will begin the meeting. Mr. Minister, you could proceed with your statement or we could treat it as filed. In any event, the reference from the House is on Bill C-87, an act respecting the imposition of duties of customs and other charges to give the immediate effect to the International Convention on the Harmonized Commodity Description and Coding System.

The witness is the Minister of State for Finance. Mr. Minister, if my understanding is correct, this bill has been negotiated over many years and harmonizes custom descriptions. It is a very long bill. If you could briefly deal with it, we could get on to the clause-by-clause discussion.

Hon. Thomas Hockin (Minister of State (Finance)): Mr. Chairman, I am grateful for the opportunity to speak to you this afternoon. This document is one of the largest pieces of legislation, if not the largest, since Confederation of the Parliament of Canada. I want to tell you how it is broken down, one sentence for each part.

Schedule I, which is most of these two documents, lists all the products imported into Canada. It is divided into 21 sections and 98 chapters. Everything is classified by what it is rather than how it is used. It is the conceptual difference. The digits are easy to understand because the they simply get higher horizontally as refinements occur to the product.

Schedule II begins on page 814 and gives the statutory end-use provisions, a Canadian anomaly. We have lower duties for specific end uses. We have cleaned most of them out of our act, but there are still some left.

Schedule III, at page 910, tells you where every country fits and where we classify them in terms of tariff treatment. If you want to know how we treat a country, you can find it there.

Schedule IV gives all the goods subject to drawback for home consumption as set out in the budget.

Schedule V gives the goods subject to drawback when used for certain purposes. Those are Order-In-Council changes.

I will speak to a couple of comments made during second reading debate. It is probably the most abbreviated way in which I could be useful this afternoon.

TÉMOIGNAGES

[Enregistrement électronique]

[Traduction]

Le mercredi 25 novembre 1987

Le président: La séance est ouverte. Monsieur le ministre, vous pouvez nous présenter votre exposé, ou nous pouvons le considérer comme ayant été lu. Quoi qu'il en soit, il s'agit du renvoi du projet de loi C-87, Loi concernant l'imposition de droits de douane ou d'autres droits, la mise en oeuvre de la Convention internationale sur le Système harmonisé de désignation des marchandises.

Le témoin est le ministre d'État chargé des Finances. Monsieur le ministre, si j'ai bien compris, le présent projet de loi fait l'objet de négociations depuis de nombreuses années et il harmonise les désignations des marchandises. Il s'agit d'un très long projet de loi. Vous pouvez peut-être d'abord nous en parler brièvement, puis nous en ferons l'étude article par article.

L'honorable Thomas Hockin (ministre d'État (Finances)): Monsieur le président, je vous remercie de l'occasion qui m'est donnée de m'adresser au comité cet après-midi. Il s'agit de l'un des plus longs projets de loi, sinon le plus long depuis la Confédération du Parlement du Canada. Je veux vous en expliquer les différentes parties, en décrivant chacune en une phrase.

L'annexe I, qui est le plus important des deux documents, énumère tous les produits importés au Canada. Elle comporte 21 sections et 98 chapitres. Chaque produit est classifié selon sa nature plutôt que son utilisation. Le concept de classification est différent. Les chiffres sont faciles à comprendre puisqu'ils vont tout simplement en augmentant au fur et à mesure que le produit est transformé.

L'annexe II commence à la page 814 et stipule les dispositions légales concernant l'utilisation finale, une anomalie canadienne. Nous avons des droits de douane moins élevés pour des utilisations finales précises. Nous les avons presque toutes éliminées, mais il en reste encore.

L'annexe III, à la page 910, donne la situation de chaque pays et sa classification pour ce qui est du traitement tarifaire. Si l'on veut savoir comment nous traitons un pays, c'est là qu'on peut le trouver.

L'annexe IV énumère tous les produits admis au bénéfice du drawback pour consommation intérieure, tel que stipulé dans le budget.

L'annexe V énumère les produits admis au bénéfice du drawback lorsqu'ils sont utilisés à certaines fins. Ces changements sont faits par décret.

J'aimerais parler de quelques questions qui ont été soulevées devant la Chambre au cours de l'examen du projet de loi en deuxième lecture. C'est sans doute en

[Texte]

On the whole question of consultation, members of the committee should be aware that while this legislation has been before the House only since October 2, most of it has been before the public for a considerably longer time. The government's original proposals for converting the current tariff provisions to the harmonized system were sent to the Tariff Board in 1984. The Tariff Board conducted public hearings on these proposals and made recommendations which were tabled in Parliament in a series of reports. Their recommendations were not just put on the shelf; they were tabled in Parliament.

National Revenue issued an updated version of the government's proposals in early 1987 in the form of a draft departmental consolidation. I think people will be using this document in the future because it is the user-friendly version of the tariff used by the importing community.

• 1540

The two schedules contained in the document underwent some further revision as a result of international negotiations we had with our trading partners and changes to the customs tariff contained in the February 1987 budget. These revisions were released to the public in July of this year. Schedules I and II of Bill C-87, which formed the bulk of the legislation, are based directly on the government's earlier proposals as revised.

In view of this extensive consultation, the government's efforts to alert all those who could be potentially affected by the tariff conversion have been, I believe, Mr. Chairman, exemplary. The Department of National Revenue has taken the lead in working with the importing community to prepare it for the harmonized system. In 1986 they distributed 75,000 brochures outlining the tariff conversion and the revamped customs processing system that will accompany the new tariff system.

Late in 1986 a detailed information kit was sent to 10,000 importers, brokers, and others involved in importing. This program of public information was stepped up this year with an additional 14,000 information kits distributed to commercial importers. Brochures have been sent to all importers who made a commercial importation in 1986 and a series of seminars were conducted in all regions of the country.

I mention this not to take your time or to bore you but to let you know that it is vital with any system of this sort that consultation and seminars be held and that people learn how to use it. I would be remiss if I did not acknowledge the efforts made by Statistics Canada to work with the exporting community to ensure it is ready for the

[Traduction]

vous résumant la situation de cette façon que je pourrai vous être le plus utile cet après-midi.

Les membres du comité se rendent compte que même si le projet de loi C-87 n'a été déposé à la Chambre que le 2 octobre dernier, la plupart de ses dispositions sont connues depuis beaucoup plus longtemps. En réalité, les premières propositions gouvernementales visant à convertir les dispositions tarifaires actuelles en fonction du système harmonisé ont été déferées à la Commission du tarif en 1984. Celle-ci a tenu des audiences publiques à ce sujet et a fait des recommandations qui ont été déposées au Parlement dans une série de rapports. Leurs recommandations n'ont pas tout simplement été mises sur une tablette, elles ont été déposées au Parlement.

Le ministère du Revenu national a publié au début de 1987 une mise à jour des propositions gouvernementales sous forme de consolidation ministérielle. Je pense que les gens utiliseront ce document à l'avenir parce qu'il constitue la version simplifiée du tarif à l'usage des importateurs.

Les deux annexes qu'on y retrouve ont été modifiées de nouveau à la suite des négociations que le Canada a engagées au niveau international avec ses partenaires commerciaux, et des changements au tarif des douanes que renfermait le budget de février 1987. Ces révisions ont été rendues publiques en juillet dernier. Les annexes I et II, qui forment la majeure partie du projet de loi C-87, se fondent directement sur les propositions antérieures du gouvernement, telles que modifiées.

Monsieur le président, compte tenu des nombreuses consultations publiques, je dirais que les efforts déployés par le gouvernement pour aviser tous ceux et celles qui pourraient être touchés par la conversion tarifaire ont été exemplaires. Le ministère du Revenu national a pris la direction des opérations en travaillant avec les importateurs afin de les préparer au système harmonisé. En 1986, ils ont distribué 75,000 brochures expliquant la conversion tarifaire ainsi que les procédures douanières remaniées qui accompagneront le nouveau système.

Vers la fin de 1986, une trousse d'information détaillée a été envoyée à 10,000 importateurs, courtiers et autres personnes qui jouent un rôle dans le domaine de l'importation. Ce programme d'information public a été élargi cette année; en effet, 14,000 autres trousse de renseignements ont été distribuées aux importateurs commerciaux, des brochures ont été envoyées à tous les importateurs qui ont effectué au moins une importation commerciale en 1986 et une série de colloques a eu lieu dans toutes les régions du pays.

Je vous mentionne tout ceci non pas pour vous faire perdre votre temps ou pour vous ennuyer, mais bien pour que vous sachiez qu'il est essentiel de tenir des consultations et des colloques pour que les gens sachent comment utiliser le système. Il ne serait guère honorable de ma part de ne pas mentionner les efforts déployés par

[Text]

new tariff and statistical system to be implemented on January 1.

I would also remind members that we have endeavoured to alert Parliament as well. The last two budgets gave notice that a revised customs tariff would be introduced with the aim of implementing it on January 1, 1988, in conjunction with our major trading partners.

I would like to turn to one other matter that was raised during debate on second reading. Some members of the opposition cited a letter from the Automotive Industries Association of Canada in which it was alleged that the industry had not had sufficient opportunity to study the full impact of the changes being proposed. I have made it a point of having officials of my department, National Revenue and the Tariff Board meet with Mr. Wilson of the association, who wrote the letter, to discuss the issues he raised. I am happy to report that with the help of officials, Mr. Wilson has cleared up confusions he felt were there. As a result, the Automotive Industries Association has written me to withdraw its request for a three-month delay in implementing the legislation.

The Chairman: We can confirm that, Mr. Minister, with our own research staff. They have looked at all of the letters and have come to the conclusion that there is not anyone in the trade who is concerned one bit with the bill. We received letters urging that we get on with it, get it passed and get it into law as quickly as possible.

Mr. Hockin: Let me just make one final comment. I wanted to deal with it because I know the chairman and others were concerned with this matter.

Our import tariff legislation is in desperate need of updating. While it has served the country well over the many years since its inception, we are really faced with new needs and new opportunities today. The proposed legislation is intended to correct these deficiencies and to meet our new requirements. It is an entirely new approach, as I have said, to the classification of goods for customs purposes. The harmonized systems on which it is based is the new standard, international method for classifying goods. It is not just invented by us; it is worked out with our trading partners. Our adoption of this system is timed to coincide with similar moves by all of our major trading partners.

I do not, however, want to hide the fact that under the new customs tariff there will be changes in rates of duty on some imported goods. We have anticipated this and have urged importers and manufacturers to inform themselves of these changes. We recognize that these changes can have an impact on businesses and we have

[Translation]

Statistique Canada pour oeuvrer avec les exportateurs afin d'assurer qu'ils soient prêts au moment de l'entrée en vigueur du nouveau système tarifaire et statistique, soit le 1^{er} janvier 1988.

Je rappellerai aux membres du comité que nous nous sommes aussi efforcés de tenir le Parlement au courant des événements. Les deux derniers budgets précisaient qu'un tarif des douanes modifié serait adopté et que nous entendions le mettre en oeuvre le 1^{er} janvier 1988, de concert avec nos principaux partenaires commerciaux.

Permettez-moi maintenant d'aborder une question soulevée au cours du débat en deuxième lecture. Certains députés de l'Opposition ont cité une lettre de l'Association des industries automobiles du Canada dans laquelle on affirmait que l'industrie n'avait pas suffisamment eu la possibilité d'étudier toutes les incidences que pourraient comporter les changements proposés. Je me suis fait un devoir d'organiser une rencontre entre les fonctionnaires de mon ministère, ceux du Revenu national et ceux de la Commission du tarif et M. Wilson, qui est membre de l'association et auteur de cette lettre, afin de discuter des points précis qu'il a soulevés. Je suis heureux de pouvoir vous confirmer que M. Wilson, avec l'aide des fonctionnaires, a dissipé ce malentendu. L'Association des industries automobiles a donc retiré sa requête visant à reporter de trois mois l'entrée en vigueur de la loi.

Le président: Monsieur le ministre, nos recherchistes peuvent le confirmer. Ils ont examiné toutes les lettres et en sont venus à la conclusion que le projet de loi ne pose de problèmes pour qui que ce soit qui joue un rôle dans le domaine de l'importation. Nous avons reçu des lettres nous exhortant de l'adopter le plus rapidement possible.

M. Hockin: Permettez-moi un dernier commentaire. Je voulais en parler parce que je sais que cette question préoccupe le président et d'autres personnes.

Notre législation touchant les tarifs d'importation a grandement besoin d'être mise à jour. Elle a été très utile depuis son instauration, il y a de nombreuses années; toutefois, nous avons aujourd'hui de nouveaux besoins et de nouvelles possibilités. Le projet de loi devrait permettre de corriger ces imperfections et de satisfaire à nos nouveaux besoins. Il s'agit d'une toute nouvelle approche à la classification des marchandises aux fins du régime tarifaire. Le système harmonisé, sur lequel se fonde la loi, est le nouveau mécanisme normalisé international utilisé pour classer les marchandises. Nous ne l'avons pas tout simplement inventé; nous l'avons élaboré avec nos partenaires commerciaux. L'adoption par le Canada d'un tarif des douanes fondé sur le système harmonisé coïncide avec la prise de mesures semblables par tous nos principaux partenaires commerciaux.

Je ne vous cacherai pas le fait que les taux de droit applicables sur certaines marchandises importées changeront dans le cadre du nouveau tarif des douanes. Nous avons prévu cette situation et nous avons instamment prié les importateurs et les fabricants de se renseigner sur ces changements. Nous reconnaissons que

[Texte]

made every effort to inform commercial interests through their associations and through seminars, as I have said.

I think it is fair to say that the large companies and importers who transact many importations over the course of a year have taken the necessary steps to be ready by January 1. I think it is self-evident, however, that not every importer and not every business person will have made the effort to inform himself of the changes being made in the customs tariff. It would be extraordinary if it were otherwise.

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First, many importers use custom brokers. In fact over 75% of import transactions in this country are handled by brokers. I think we can assume that many importers will probably leave it to their brokers to acquaint themselves with the changes that will come into effect on January 1, 1988. You might run into some importer and ask him what he thinks of this new system and he might not know much about it because he relies on his broker.

We recognize therefore that come January 1 some people will be caught unprepared when trade begins to flow under the new system. In anticipation of this, Elmer MacKay and I have put in place a procedure to ensure that importers or businesses faced with an unexpected tariff change will have recourse for obtaining a review of their situation. As one part of this, the Department of National Revenue is installing a fast-track procedure for getting decisions on proper tariff classification. Once it has been established that there has indeed been a change in the rate of duty as a result of the conversion, importers or producers will have the option of taking their case to a committee of senior level officials who will review the merits of restoring rates of duty in existence prior to January 1, 1988. This committee will report directly to me, and when I feel a case has been made I will be prepared to recommend a change in the rate of duty.

In this regard, I would point out that because of the fundamental change being made in the tariff structure, the complexity of the conversion, and the fact that some companies may be impacted on unintentionally, it was felt prudent to give the Governor in Council fairly broad authority to amend rates of duty for an 18-month period following implementation. The intention of this authority is to allow us to restore rates of duty in cases where companies may be significantly and adversely affected by the tariff conversion. There has also been a suggestion that the government will not have the necessary regulations—

[Traduction]

ces modifications peuvent avoir des répercussions sur les entreprises et nous avons fait tout notre possible pour renseigner les milieux d'affaires par l'entremise des associations de commerçants et d'industries, en organisant des colloques, comme je l'ai dit.

Je tiens à préciser que les grandes sociétés et les importateurs qui effectuent annuellement de nombreuses importations ont pris les dispositions nécessaires pour être prêts le 1^{er} janvier. Toutefois, il me semble évident que tous les importateurs et toutes les entreprises ne se sont pas efforcés d'obtenir les renseignements sur les modifications apportées au tarif des douanes. Le contraire aurait été surprenant.

Tout d'abord, un grand nombre d'importateurs ont recours aux services de courtiers en douane. En effet, plus de 75 p. 100 des opérations sont effectuées par les courtiers. Nous pouvons présumer que de nombreux importateurs laisseront probablement aux courtiers le soin de se renseigner sur les changements qui entreront en vigueur le 1^{er} janvier 1988. Si vous rencontrez un importateur et que vous lui demandez ce qu'il pense du nouveau système, il ne pourra peut-être pas vous répondre étant donné qu'il compte sur son courtier pour se renseigner.

Nous reconnaissons donc que certaines personnes ne seront pas encore prêtes le 1^{er} janvier, lorsque les transactions commenceront à s'opérer sous le nouveau régime tarifaire. C'est pourquoi l'honorable Elmer MacKay et moi-même avons établi une procédure qui permettra aux importateurs et aux entreprises frappés de nouveaux tarifs qu'eux-mêmes n'avaient pas prévus, d'avoir recours à une demande d'examen de leur situation. Dans le cadre de cette démarche, le ministère du Revenu national met actuellement au point une procédure accélérée pour que les décisions relatives au classement tarifaire soient rendues rapidement. Lorsqu'il aura été établi que le taux de droit aura été effectivement modifié à la suite de la conversion au nouveau système tarifaire, les importateurs ou les producteurs pourront choisir de porter leurs cas devant un comité composé de cadres supérieurs qui détermineront s'il y a lieu ou non de rétablir les taux de droit en vigueur avant le 1^{er} janvier 1988. Le comité me fera directement son rapport et, si je suis convaincu par les arguments présentés, j'accepterai de recommander que l'ancien taux de droit soit rétabli.

A cet égard, je tiens à souligner qu'en raison des modifications fondamentales apportées à la structure tarifaire, de la complexité de la conversion et du fait que certaines sociétés peuvent subir des dommages non voulus, nous avons jugé prudent de donner au Gouverneur en conseil le pouvoir relativement large de modifier le taux de droit au cours des 18 mois suivant l'entrée en vigueur du nouveau tarif. Ce pouvoir a pour but de nous permettre de rétablir un ancien taux de droit lorsque la conversion tarifaire causerait des torts importants à une société. Certains ont également laissé

[Text]

Mr. de Jong: Could I ask one question please? You do have the ability in the legislation to change the tariffs by Order in Council for an 18-month period?

Mr. Hockin: It is in the bill.

Mr. de Jong: It is in the bill. Okay. Maybe one of your officials can point out that clause.

Mr. Hockin: Clause 131. We can deal with that now, Mr. Chairman—I will just finish in two minutes.

The Chairman: Let us deal with the questions, Mr. Minister.

Mr. Hockin: Let me just make a concluding statement. There has been a suggestion that the government will not have the necessary regulations to implement many of the provisions of the tariff, and I want to assure members that this is not the case. These regulations are in fact in the final stages of preparation and draft versions in the form of interim administrative guidelines will be released to the public in the next few weeks by the Department of National Revenue.

To conclude, as you have said, Mr. Chairman, the Canadian business community, including importers and exporters, is counting on this legislation. Our major trading partners, who are also adopting tariff systems based on this system, are looking to us to provide leadership at this important step. As a postscript, I would add that the passage of this legislation will open the way for us to ratify the international convention on the harmonized commodity description and coding system and accept the GATT protocol containing Canada's new GATT schedule of tariff concessions. Together these actions will bind Canada to the new international system for describing and classifying goods in international trade. We hope to be able to take these steps in December, providing we receive speedy passage of the legislation.

Mr. Layton: Hear, hear.

The Chairman: Questions? Mr. de Jong.

Mr. de Jong: I am just trying to figure out the first subclause of clause 131. Is it the lawyers that write this way so only other lawyers would understand?

The Chairman: That helps.

Mr. de Jong: I think that is important.

The Chairman: I think there is a lawyer or two. On the recommendation of the Minister of Finance—

Mr. Hockin: Most of them are from the legal division of the department—

The Chairman: Well that is a clean, easy one.

[Translation]

entendre que le gouvernement ne disposerait pas en temps opportun de la réglementation nécessaire. . .

M. de Jong: Puis-je poser une question s'il vous plaît? La loi vous donne le pouvoir de modifier les tarifs par décret du Gouverneur en conseil pendant une période de 18 mois?

M. Hockin: C'est dans le projet de loi.

M. de Jong: Très bien. Un de vos fonctionnaires pourrait peut-être me dire de quel article il s'agit.

M. Hockin: Il s'agit de l'article 131. Monsieur le président, j'aurai terminé mon exposé en deux minutes.

Le président: Passons maintenant aux questions, monsieur le ministre.

M. Hockin: Permettez-moi de faire un dernier commentaire. Certains ont laissé entendre que le gouvernement ne disposerait pas en temps opportun de la réglementation nécessaire pour appliquer un grand nombre des dispositions du tarif, et je désire vous assurer que tel n'est pas le cas. En réalité, ces règlements en sont à l'étape finale de préparation et les ébauches seront rendues publiques par le ministère du Revenu national dans les prochaines semaines sous forme de lignes directrices administratives provisoires.

Pour conclure, monsieur le président, je vous signale que le milieu des affaires, notamment les exportateurs et les importateurs, comptent sur cette législation. En outre, nos principaux partenaires commerciaux, qui adopteront également des systèmes tarifaires fondés sur le système harmonisé, comptent sur le Canada pour faire preuve de leadership dans cette importante entreprise. Permettez-moi d'ajouter que l'adoption de ce projet de loi nous permettra de ratifier la Convention internationale sur le Système harmonisé de désignation et de codification des marchandises et d'accepter le protocole du GATT qui contient la nouvelle liste des concessions tarifaires du GATT pour le Canada. Ensemble, ces mesures lieront le Canada au nouveau système international de désignation et de codification des marchandises. Nous espérons pouvoir prendre ces mesures en décembre, pourvu que le projet de loi soit adopté rapidement.

M. Layton: Bravo, bravo.

Le président: Des questions? Monsieur de Jong.

M. de Jong: J'ai de la difficulté à comprendre le premier paragraphe de l'article 131. Est-ce parce que les avocats l'ont rédigé de telle façon que seulement d'autres avocats puissent le comprendre?

Le président: Cela aide d'être avocat.

M. de Jong: Je pense que c'est important.

Le président: Je pense qu'il y a un ou deux avocats. Sur recommandation du ministre des Finances. . .

M. Hockin: La plupart d'entre eux sont du contentieux du ministère. . .

Le président: Eh bien c'est clair et facile.

[Texte]

Mr. Hockin: Dan Hermosa from the legal division of the Department of Finance will do an exegesis of that section for you, if you like.

Mr. de Jong: Okay.

Mr. Dan Hermosa (Counsel, General Legal Services Division, Law Branch, Department of Finance): Basically what subclause 131(1) says is that on the recommendation of the Minister of Finance the Governor in Council can make changes to rates in the various schedules. The power to do so lasts for 18 months from the effective date of the act. Probably the rates you are particularly concerned about are the rates in Schedule I.

The Chairman: Subclause 131.(2).

Mr. Hermosa: That is subclause 131.(2).

Mr. de Jong: I am still uncertain about clause 62—a reduction or removal of duties:

The Governor in Council may, on the recommendation of the Minister of Finance, by order,

(a) reduce or remove custom duties on goods imported from any country by way of compensation for concessions granted by that country or any other country, subject to such conditions as may be specified in the order

(b) extend the benefit of any order made pursuant to paragraph (a) to any other country as may be required by Canada's international obligations, subject to such conditions as may be specified in the order.

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Am I to understand from clause 62 that the government or the Minister through Order in Council can change any duties at any time? If so, what is the sense of having clause 131 when you have clause 62?

Mr. Joe Loomer (Department of Finance): This is by way of compensation, a negotiation. They give you something and you give them something in return. The other is unilateral.

Mr. de Jong: I am somewhat concerned about clause 62. Mr. Chairman, since I am able to ask questions about clause 62, it indicates that I have read all these pages. I have gone through it with a fine-tooth comb, as I am sure you and every other member of this committee have.

The Chairman: We all have, Mr. de Jong. We have had the bill for a number of weeks while we have been doing it. It is good bedtime reading.

Mr. Hockin: Mr. Chairman, in the previous legislation, section 11 made similar provisions. This is not a new—

[Traduction]

M. Hockin: Si vous le voulez, Dan Hermosa du contentieux du ministère des Finances fera l'exégèse de cet article pour vous.

M. de Jong: Très bien.

M. Dan Hermosa (conseiller, division des services juridiques généraux, direction juridique, ministère des Finances): Le paragraphe 131(1) dit essentiellement que sur recommandation du ministre des Finances, le Gouverneur en conseil peut modifier les taux contenus dans les diverses annexes. Ce pouvoir lui est accordé pendant 18 mois après l'entrée en vigueur de la loi. Les taux qui vous préoccupent particulièrement se trouvent sans doute à l'annexe I.

Le président: Le paragraphe 131.(2).

M. Hermosa: Il s'agit du paragraphe 131.(2).

M. de Jong: Je ne comprends pas encore très bien l'article 62—réduction ou suppression des droits de douane:

Le Gouverneur en conseil peut, sur recommandation du ministre des Finances, par décret, sous réserve des conditions qui peuvent y être spécifiées:

a) réduire ou supprimer les droits sur les marchandises importées d'un pays en compensation de concessions accordées au Canada par ce pays ou par un autre pays;

b) accorder le bénéfice d'un décret d'application de l'alinéa a) à un pays dans la mesure où peuvent l'exiger les obligations internationales du Canada.

Dois-je comprendre à l'article 62 que le gouvernement ou le ministre peut modifier n'importe quel droit à n'importe quel moment par un décret du gouverneur en conseil? Si c'est le cas, à quoi sert-il d'avoir l'article 131 si l'on a l'article 62?

M. Joe Loomer (ministère des Finances): Il s'agit en quelque sorte d'une compensation, de négociations. Ils vous donnent quelque chose et vous leur donnez quelque chose en retour. Dans le cas de l'autre article, il s'agit d'une mesure unilatérale.

M. de Jong: L'article 62 m'inquiète un peu. Monsieur le président, puisque je peux poser des questions au sujet de l'article 62, cela prouve que j'ai lu tout le document. Je l'ai passé au peigne fin, comme l'ont fait j'en suis certain tous les membres du Comité.

Le président: Nous l'avons tous fait, monsieur de Jong. Nous avons le texte du projet de loi depuis quelques semaines, et c'est ce que nous avons fait. C'est un document qui se lit très bien avant d'aller au lit.

M. Hockin: Monsieur le président, l'article 11 de la loi précédente comportait des dispositions semblables. Ce n'est pas nouveau. . .

[Text]

The Chairman: It is not a new clause.

Mr. de Jong: I am somewhat concerned about the broadness of it. I suppose it is up to the Minister to decide what the compensation would be. Should this normally be done through Parliament?

The Chairman: You have the existing section of the existing bill. Can you tell us to what extent section 11 is different from clause 62?

Mr. Loomer: At one time the results of GATT negotiations were brought in under this authority, but more recently it has been done by Parliament. It was one of the uses of this delegated authority.

The Chairman: What does the present section 11 say?

Mr. Hermosa: This clause is very similar to section 11, if not verbatim. There might be some stylistic changes to bring it up to date, but basically it is the same in substance from the point of view of the power within the section.

Mr. de Jong: I am still concerned, because it is a pretty wide power. I suppose we could reduce customs almost unilaterally so long as there is some item to say we have done it in terms of compensation. I am concerned that we are not going to pass the free trade bill through Orders in Council.

The Chairman: I do not think you are allowed to do that.

Mr. de Jong: I want to make certain clause 62 is not going to allow you to do it.

The Chairman: You have an undertaking in the House that it would be done by a bill in the House today. Do you have section 11?

Mr. Loomer: Yes, sir. It says:

The Governor in Council may, by order,

(a) reduce or remove the duties on goods imported into Canada from any other country or countries by way of compensation for concessions granted by any such country or countries; and

(b) extend the benefits of any order made pursuant to paragraph (a) to any other country or countries as may be required by Canada's international obligations.

The Chairman: It is almost identical, I would think.

Mr. de Jong: Is that section used often?

Mr. Loomer: I think it was used more often when we did the GATT results by Order in Council and probably not so much now.

Mr. de Jong: I am happy to hear in the Minister's comments that there is a recognition by the government that the new system, new classifications and duties can

[Translation]

Le président: Il ne s'agit pas d'un nouvel article.

M. de Jong: La portée de cet article me préoccupe. Je suppose qu'il appartient au ministre de décider en quoi consistera la compensation. Est-ce que cela devrait se faire habituellement par l'intermédiaire du Parlement?

Le président: Vous avez l'article en question du projet de loi actuel. Pouvez-vous nous dire dans quelle mesure l'article 11 diffère de l'article 62?

M. Loomer: A une époque, les accords conclus à la suite des négociations du GATT entraient en vigueur par décret du gouverneur en conseil, mais plus récemment, c'est le Parlement qui s'en chargeait. Il s'agissait donc de l'un des pouvoirs qui lui était délégué.

Le président: Que dit l'article 11 actuel?

M. Hermosa: Le présent article est très semblable à l'article 11, s'il ne l'est pas mot pour mot. On a peut-être modifié le style pour le mettre à jour, mais il est essentiellement le même en ce qui concerne le pouvoir qui y est conféré.

M. de Jong: Cela me préoccupe toujours, car il s'agit d'un assez grand pouvoir. Je suppose que nous pourrions réduire les droits de douane presque unilatéralement pourvu que l'on puisse dire que nous l'avons fait en compensation. Je ne voudrais pas que l'on adopte le projet de loi sur l'Accord de libre-échange par décret du gouverneur en conseil.

Le président: Je ne pense pas que l'on puisse faire cela.

M. de Jong: Je veux m'assurer que l'article 62 ne permettra pas de le faire.

Le président: Vous avez un engagement à la Chambre que cela se fera par le dépôt d'un projet de loi aujourd'hui. Avez-vous l'article 11?

M. Loomer: Oui, monsieur, et je cite:

Le gouverneur en conseil peut, par décret,

a) réduire ou supprimer les droits sur les marchandises importées d'un pays en compensation de concessions accordées au Canada par ce pays ou un autre pays; et

b) accorder le bénéfice d'un décret d'application de l'alinéa a) à un pays dans la mesure où peuvent l'exiger les obligations internationales du Canada.

Le président: Je dirais que les deux articles sont presque identiques.

M. de Jong: Cet article est-il souvent utilisé?

M. Loomer: Je crois qu'il était utilisé plus souvent lorsque les résultats des négociations du GATT étaient mis en vigueur par décret du gouverneur en conseil. Il est sans doute beaucoup moins utilisé actuellement.

M. de Jong: Je suis heureux d'entendre le ministre dire qu'un nouveau système tarifaire, la nouvelle classification et les nouveaux droits de douane peuvent causer des

[Texte]

cause some unforeseen problems and that they have a mechanism to allow these problems to be heard now in place with the Minister of Revenue. I understand it is dealt with fairly and in a speedy manner. Could the Minister tell us which products will be the most affected by the new system?

Mr. Hockin: The new system affects virtually everything. The statutory end-use provisions are separating these anomalies when we want to classify things by end use. For the first time in our history, we decided not to classify things on how we use it but by what it is. I guess the things that are not affected are just the small list of statutory end-use products.

• 1555

Mr. de Jong: What items will be most impacted?

Mr. Hockin: I think parts going into machinery may experience more examination. People will find that there has been a change there perhaps more than for any other part of the schedule.

Mr. de Jong: I understand that the harmonization date will be January 1, 1988. Apparently there is some concern that the United States will not adopt the system at that time. Can the Minister give his assurance that the U.S. will adopt a system at that time?

Mr. Hockin: I would love to be able to give such assurance. The arguments strongly favour proceeding without delay regardless of the U.S. The legislation will provide important benefits to our business community in terms of increased efficiency and in cost savings, so we should go ahead. Both the government and the private sector, if you look at it, have invested heavily in preparing for this. I have letters here saying it would be disastrous if we could not get up and going because everybody is ready for it. Delay could result in additional costs in the millions of dollars. We should be strongly supportive of having the international trading community adopt it.

The U.S. is expected to separate out the harmonized system part from its omnibus trade bill and to pass it separately. There is no guarantee, but it is expected they will.

The Chairman: I want to proceed with clause-by-clause reading. I am going to call clause 2.

Clause 2 agreed to.

The Chairman: I suggest we move from clause 2 right through to clause 141 and carry them all at once. Is there any objection to it? Shall clauses 3 to 141 inclusive carry?

Clauses 3 to 141 inclusive agreed to.

[Traduction]

problèmes imprévus et que le ministre du Revenu national a mis en place un mécanisme permettant aux intéressés de porter leur cas devant un comité qui tranchera la question de façon équitable et rapide. Le ministre pourrait-il nous dire quels produits seront les plus touchés par le nouveau système?

M. Hockin: Le nouveau système touche pratiquement tous les produits. Les dispositions légales relatives à l'utilisation finale séparent ces anomalies lorsque nous voulons classer les produits selon leur utilisation finale. Pour la première fois dans notre histoire, nous avons décidé de classer les produits non pas selon leur utilisation mais plutôt selon leur nature. Ceux qui ne sont pas touchés sont les produits qui figurent sur la petite liste des produits statutaires en fonction de leur utilisation finale.

M. de Jong: Quels produits seront les plus touchés?

M. Hockin: Les pièces utilisées dans des machines seront peut-être les plus touchées. Les gens s'apercevront que cette partie a été modifiée davantage que toute autre partie de l'annexe.

M. de Jong: Si j'ai bien compris, le système harmonisé entrera en vigueur le 1^{er} janvier 1988. Certaines personnes semblent craindre que les États-Unis n'adoptent pas le système à cette date. Le ministre peut-il nous assurer que les États-Unis adopteront le système à cette date?

M. Hockin: J'aimerais beaucoup pouvoir vous donner une telle assurance. Il est fortement préférable que nous adoptions le système sans délai peu importe ce que feront les États-Unis. Cette loi sera très avantageuse pour nos entreprises puisqu'elle augmentera l'efficacité et permettra de réduire les coûts. Le gouvernement et le secteur privé ont consacré beaucoup de temps et d'efforts à la préparation de ce projet. J'ai des lettres ici disant qu'il serait désastreux de ne pas instaurer ces dispositions tarifaires parce que les autres ne sont pas prêts. En retarder l'instauration pourrait coûter des millions de dollars. Nous devrions fortement encourager le milieu commercial international à l'adopter.

On s'attend à ce que les États-Unis séparent de son projet de loi omnibus pour le commerce la partie touchant le système harmonisé et l'adopte séparément. Rien ne nous garantit qu'ils le feront, mais on s'attend à ce qu'ils le fassent.

Le président: Passons maintenant à l'étude article par article. Je vais mettre l'article 2 aux voix.

L'article 2 est adopté.

Le président: Je propose que l'on mette aux voix les articles 3 à 141 tous ensemble. Quelqu'un y voit-il une objection? Les articles 3 à 141 inclusivement sont-ils adoptés?

Les articles 3 à 141 inclusivement sont adoptés.

*[Text]***The Chairman:** Shall clause 1 carry?**Some hon. members:** Agreed.**The Chairman:** Shall the title carry?**Some hon. members:** Agreed.**The Chairman:** Shall the bill carry?**Some hon. members:** Agreed.**The Chairman:** Shall I report the bill to the House?**Some hon. members:** Agreed.**The Chairman:** Thank you. The meeting is adjourned to the call of the Chair.*[Translation]***Le président:** L'article 1 est-il adopté?**Des voix:** L'article 1 est adopté.**Le président:** Le titre est-il adopté?**Des voix:** Il est adopté.**Le président:** Le projet de loi est-il adopté?**Des voix:** Il est adopté.**Le président:** Dois-je faire rapport du projet de loi à la Chambre?**Des voix:** Oui.**Le président:** Merci. La séance est levée.



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WITNESSES

From the Department of Finance:

Dan Hermosa, Counsel, General Legal Services
Division;

Joe Loomer, Special Advisor, Tariffs Division.

TÉMOINS

Du ministère des Finances:

Me Dan Hermosa, conseiller, Division des services
juridiques généraux;

Joe Loomer, conseiller spécial, Division des tarifs.

HOUSE OF COMMONS

Issue No. 129

Wednesday, December 2, 1987

Chairman: Don Blenkarn

CHAMBRE DES COMMUNES

Fascicule n° 129

Le mercredi 2 décembre 1987

Président: Don Blenkarn

*Minutes of Proceedings and Evidence of the
Standing Committee on*

Finance and Economic Affairs

*Procès-verbaux et témoignages du Comité
permanent des*

Finances et des affaires économiques



RESPECTING:

Bill C-64, An Act to amend the Income Tax Act, a related Act, the Canada Pension Plan and the Unemployment Insurance Act, 1971

CONCERNANT:

Projet de loi C-64, Loi modifiant la Loi de l'impôt sur le revenu et la législation connexe ainsi que le Régime de pensions du Canada et la Loi de 1971 sur l'assurance-chômage

WITNESSES:

(See back cover)

TÉMOINS:

(Voir à l'endos)

Second Session of the Thirty-third Parliament,
1986-87

Deuxième session de la trente-troisième législature,
1986-1987

STANDING COMMITTEE ON FINANCE AND
ECONOMIC AFFAIRS

Chairman: Don Blenkarn

Vice-Chairman: Robert E.J. Layton

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Suzanne Blais-Grenier
Michael Cassidy
Mary Collins
Simon de Jong
Murray Dorin
Raymond Garneau
Paul McCrossan
George Minaker
Aideen Nicholson
Norman Warner

(Quorum 7)

Marie Carrière
Clerk of the Committee

COMITÉ PERMANENT DES FINANCES ET DES
AFFAIRES ÉCONOMIQUES

Président: Don Blenkarn

Vice-président: Robert E.J. Layton

Membres

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Suzanne Blais-Grenier
Michael Cassidy
Mary Collins
Simon de Jong
Murray Dorin
Raymond Garneau
Paul McCrossan
George Minaker
Aideen Nicholson
Norman Warner

(Quorum 7)

Le greffier du Comité
Marie Carrière

MINUTES OF PROCEEDINGS

WEDNESDAY, DECEMBER 2, 1987
(197)

[Text]

The Standing Committee on Finance and Economic Affairs met at 3:39 o'clock p.m. this day, in Room 269, West Block, the Chairman, Don Blenkarn, presiding.

Members of the Committee present: Bill Attewell, Don Blenkarn, Michael Cassidy, Mary Collins, Robert Layton, Paul W. McCrossan, George Minaker, Aideen Nicholson and Norman Warner.

Acting Members present: Ross Belsher for Murray Dorin and Jean-Guy Hudon for Suzanne Blais-Grenier.

In attendance: From the Committee's Research Staff: H. Bert Waslander, Research Director. *From the Research Branch of the Library of Parliament:* Terrence J. Thomas, Research Officer.

Witnesses: From the Tax Policy and Legislation Branch of the Department of Finance: Len Farber, Director, Tax Policy and Legislation; Harold White, Legislative Counsel; Brian J. Ernewein, Tax Policy Officer.

The Committee resumed consideration of its Order of Reference dated Tuesday, June 30, 1987 in relation to Bill C-64, an Act to amend the Income Tax Act, a related Act, the Canada Pension Plan and the Unemployment Insurance Act, 1971. (*See Minutes of Proceedings and Evidence, Wednesday, August 12, 1987, Issue No. 78.*)

The Chairman called Clause 1.

The witnesses answered questions.

Clauses 1 and 2 carried.

On Clause 3

After debate Clause 3 was allowed to stand.

Clauses 4 and 5 carried.

On Clause 6

After debate Clause 6 was allowed to stand.

Clause 7 was allowed to stand.

Clauses 8 and 9 carried.

On Clause 10

Norman Warner moved,—That Clause 10 be amended by striking out line 13 at page 12 and substituting the following:

"Province of British Columbia or in the area of Akwesasne in the Province of Ontario or in the Province of Quebec as a branch"

After debate, the question being put on the amendment, it was negatived on the following recorded vote:

PROCÈS-VERBAL

LE MERCREDI 2 DÉCEMBRE 1987
(197)

[Traduction]

Le Comité permanent des finances et des affaires économiques se réunit, aujourd'hui à 15 h 39, dans la pièce 269 de l'Édifice de l'Ouest, sous la présidence de Don Blenkarn, (*président*).

Membres du Comité présents: Bill Attewell, Don Blenkarn, Michael Cassidy, Mary Collins, Robert Layton, Paul W. McCrossan, George Minaker, Aideen Nicholson et Norman Warner.

Membres suppléants présents: Ross Belsher remplace Murray Dorin; Jean-Guy Hudon remplace Suzanne Blais-Grenier.

Aussi présents: Du personnel de recherche du Comité: H. Bert Waslander, directeur de la recherche. Du Service de recherche de la Bibliothèque du Parlement: Terrence J. Thomas, attaché de recherche.

Témoins: De la Direction de la politique et de la législation de l'impôt du ministère des Finances: Len Farber, directeur, Politique et législation de l'impôt; Maitre Harold White, conseiller législatif; Brian J. Ernewein, agent de la politique de l'impôt.

Le Comité examine de nouveau son ordre de renvoi du mardi 30 juin 1987 relatif au projet de loi C-64, Loi modifiant la Loi de l'impôt sur le revenu et la législation connexe ainsi que le Régime de pensions du Canada et la Loi de 1971 sur l'assurance-chômage. (*Voir Procès-verbaux et témoignages du mercredi 12 août 1987, fascicule n° 78.*)

Le président met en délibération l'article 1.

Les témoins répondent aux questions.

Les articles 1 et 2 sont adoptés.

Article 3

Après débat, l'article 3 est réservé.

Les articles 4 et 5 sont adoptés.

Article 6

Après débat, l'article 6 est réservé.

L'article 7 est réservé.

Les articles 8 et 9 sont adoptés.

Article 10

Norman Warner propose,—Que l'article 10 soit modifié en substituant à la ligne 9, page 12, ce qui suit:

«Vancouver (Colombie-Britannique) ou dans la région d'Akwesasne (Ontario) ou au Québec com-»

Après débat, l'amendement est mis aux voix et rejeté à la majorité des voix:

YEAS

Norman Warner—(1)

NAYS

Bill Attewell	Jean-Guy Hudon
Ross Belsher	Robert Layton
Michael Cassidy	George Minaker—(7)
Mary Collins	

At 5:35 o'clock p.m., the Committee adjourned to the call of the Chair.

Eugene Morawski

Committee Clerk

POUR

Norman Warner—(1)

CONTRE

Bill Attewell	Jean-Guy Hudon
Ross Belsher	Robert Layton
Michael Cassidy	George Minaker—(7)
Mary Collins	

À 17 h 35, le Comité s'ajourne jusqu'à nouvelle convocation du président.

Greffier de Comité

Eugene Morawski

EVIDENCE

[Recorded by Electronic Apparatus]

[Texte]

Wednesday, December 2, 1987

• 1536

The Chairman: We are going to complete consideration of Bill C-64 in accordance with our order of reference of June 30, 1987. The agreement was to complete the reading of the bill clause by clause today. I propose to go through the bill clause by clause and as we run into clauses with amendments that have been tabled, or amendments members may want to table, we will do that—

Miss Nicholson: Obviously the Official Opposition has no intention of delaying this bill unduly, but I am surprised to hear you say there was an agreement to complete it today. While it may very well be completed today, I was not party to such an agreement. Where was it made?

The Chairman: My understanding was that there was agreement we would try to do it today, but if we could not do it today, we would do it tomorrow morning. Perhaps we can get through it today.

Miss Nicholson: It is quite possible. I just would not want to—

The Chairman: I think you are correct; I think I made a mistake.

Mr. Cassidy: There was no agreement that we would vote on every item at 5.30 p.m.

The Chairman: I was hoping we could get through it today. We will move ahead as quickly as we can. If we have to go into tomorrow, we will, but we have to have this matter eventually resolved.

We have Mr. Farber from the department. Mr. Farber, you have two other people with you.

Mr. Len Farber (Director, Tax Policy and Legislation, Tax Policy and Legislation Branch, Department of Finance): Yes, with me are Mr. Harold White and Mr. Mark Cuerrier from the Tax Counsel Division. Depending on the issues this committee may want to raise, I have other people available on particular points.

The Chairman: There are a lot of amendments in this bill. Mr. Farber, you have some government amendments and I think other members have amendments. I have my bill tagged to some extent. I was going to proceed that way. I do not believe there are any amendments to clause 1.

Mr. Cassidy: It would be helpful if Mr. Waslander could indicate as we go through if there are any contentious features to a particular clause just to sort of—

TÉMOIGNAGES

[Enregistrement électronique]

[Traduction]

Le mercredi 2 décembre 1987

Le président: Nous allons terminer l'étude du projet de loi C-64 conformément à notre ordre de renvoi du 30 juin 1987. Il a été convenu de terminer aujourd'hui la lecture du projet de loi, article par article. Je propose d'étudier le projet de loi article par article et, si nous rencontrons des articles pour lesquels des amendements ont été déposés, ou seront déposés par les membres du Comité, nous le ferons. . .

Mme Nicholson: Manifestement, l'Opposition officielle n'a pas l'intention de retarder indûment ce projet de loi, mais je m'étonne de vous entendre dire qu'il était convenu de terminer aujourd'hui. Il se pourrait très bien que nous terminions aujourd'hui, mais je ne suis pas au courant d'un tel accord. Où a-t-il été conclu?

Le président: À ce que j'avais compris, il était entendu que nous tenterions de le faire aujourd'hui, mais que, si c'était impossible, nous le ferions demain matin. Peut-être pourrions-nous terminer aujourd'hui.

Mme Nicholson: C'est tout à fait possible. Je ne voudrais tout simplement pas. . .

Le président: Je crois que vous avez raison; je crois que je me suis trompé.

M. Cassidy: Il n'y avait aucune entente selon laquelle nous devions voter sur chaque article à 17h30.

Le président: J'espérais que nous pourrions terminer aujourd'hui. Nous allons procéder le plus rapidement possible. S'il nous faut terminer demain, nous le ferons, mais il faut que cette question finisse par se régler.

Nous accueillons M. Farber, du ministère. Monsieur Farber, vous êtes accompagné de deux autres personnes.

M. Len Farber (directeur, Division de la politique et de la législation de l'impôt, Direction de la politique et de la législation de l'impôt, ministère des Finances): Oui, je suis accompagné de M. Harold White et de M. Mark Cuerrier, de la Division des conseillers fiscaux. Selon les questions que le Comité pourra soulever, d'autres personnes sont disponibles pour intervenir sur des points précis.

Le président: Le projet de loi comporte beaucoup d'amendements. Monsieur Farber, vous avez des amendements gouvernementaux, et je pense que d'autres membres du Comité ont aussi des amendements. Mon projet de loi est marqué dans une certaine mesure. J'avais l'intention de procéder ainsi. Je ne crois pas qu'il y ait des amendements à l'article 1.

M. Cassidy: Il serait utile que M. Waslander nous indique à propos de chaque article s'il y a des éléments controversés tout simplement pour. . .

[Text]

Miss Nicholson: Mr. Chairman, on subclause 1.(2) and the question of employee forgiveness of loans, have any representations been received from members of the public?

The Chairman: We have not received any at the committee.

Mr. Farber: Mr. Chairman, other than general inquiries about the mechanics and how it works, to my knowledge there has been precious little in the way of discussion or inquiries about this at all.

• 1540

Clauses 1 and 2 agreed to.

On clause 3

The Chairman: I have an amendment to clause 3. This amendment deals with flow-through shares.

This particular clause is a question of accrued interest. The concept of clause 3 was to provide in subclause 3.(4) that bonds issued for a period that would normally have accrued—or their interest that would have accrued—as of December 31, 1987, would wind up with an accrual of December 31, 1988. That is because the three-year, or triennial, accrual was originally deemed to run from December 31, 1984, and the government is proposing 1985. There was a discussion as to whether the dates involved should be changed in order to give an accrual to 1988 or to 1990.

Does anybody want to discuss this matter? Mr. Farber says the problem is that they would like to do this, but they would like to do it in a budget. They do not know exactly what it would cost and they would like to be sure of the cost.

I will read the paragraph from Mr. Dodge's letter:

You have asked us the principle amount of long-term compound investment contracts outstanding in 1987 which would benefit from the one-year deferral of income accrual rules proposed in Bill C-64. The measure will affect approximately \$2.5 billion of Canada Savings Bonds which will mature in 1988 and about \$600 million of provincial savings bonds which were issued in 1978 to 1981 inclusive, although we cannot indicate the extent to which these bonds may have been redeemed earlier. We do not have any figures concerning other issuers of compound debt instruments.

Mr. McCrossan: Mr. Chairman, is the \$2.5 billion Canada Savings Bonds...? Obviously it is once only, and that is covered by the one-year extension.

The answer with respect to the \$600 million outstanding—is that \$600 million the number of provincial compound bonds that would be affected by the one-year figure, or is it the number of provincial

[Translation]

Mme Nicholson: Monsieur le président, au sujet du paragraphe 1.(2) et de la question de la remise des prêts aux employés, avons-nous reçu des observations du public?

Le président: Nous n'en avons reçu aucune.

M. Farber: Monsieur le président, à part des questions générales sur les détails du fonctionnement, à ma connaissance il n'y a guère eu de discussion ou de demande à cet égard.

Les articles 1 et 2 sont adoptés.

Article 3

Le président: J'ai un amendement à la l'article 3. Cet amendement porte sur les actions accréditives.

Cet article traite des intérêts accumulés. L'article 3 dispose essentiellement, au paragraphe 3.(4) que les obligations dont les intérêts auraient normalement couru jusqu'au 31 décembre 1987, verraient cette date reportée au 31 décembre 1988. En effet, les intérêts triennaux étaient au départ réputés courir depuis le 31 décembre 1984, et le gouvernement propose de remplacer cette date par 1985. On a discuté la question de savoir si les dates devraient être modifiées pour permettre que les intérêts courent jusqu'en 1988 ou 1990.

Est-ce que quelqu'un veut discuter de cette question? M. Farber déclare qu'ils aimeraient le faire, mais qu'ils aimeraient le faire dans un budget. Ils ne savent pas exactement ce qu'il en coûtera et ils aimeraient être certains du coût.

Je vous lis le paragraphe de la lettre de M. Dodge:

Vous nous avez demandé le capital des contrats d'investissement à long terme à intérêt composé en vigueur en 1987 qui bénéficieraient de ce report d'un an des règles touchant l'accumulation de revenu proposé dans le projet de loi C-64. Cette mesure touchera environ 2,5 milliards de dollars d'obligations d'épargne du Canada arrivant à maturité en 1988 et environ 600 millions de dollars d'obligations d'épargne provinciales émises entre 1978 et 1981 inclusivement, bien que nous ne sachions pas dans quelle mesure ces obligations auront été rachetées plus tôt. Nous ne disposons d'aucun chiffre concernant les autres émetteurs d'obligations à intérêt composé.

M. McCrossan: Monsieur le président, est-ce que la somme de 2,5 milliards de dollars représente les obligations d'épargne du Canada?... C'est manifestement quelque chose de ponctuel, et qui est visé par la prolongation d'un an.

En ce qui concerne les 600 millions de dollars—est-ce qu'il s'agit du nombre d'obligations provinciales à intérêt composé qui seraient touchées par le chiffre d'un an ou s'agit-il du nombre d'obligations provinciales à intérêt

[Texte]

compound bonds that could potentially be affected by an even longer deferral? I raised this point on Wednesday, the 18th.

Mr. Farber: Mr. Chairman, I do not have the answer at my fingertips. I would guess it would be all outstanding bonds as of that point in time, and it may relate beyond provincial savings bonds. There may well be outstanding corporate bonds that we would not have knowledge of.

Whether or not the deferral would go beyond the 10-year term of the bond, any changes that may be forthcoming to 1991, which would be the next third anniversary, would pick up those bonds at that point in time anyway and not go beyond the 10-year period.

I am not sure what any extended period of a bond would have to do with anything going beyond there.

Mr. McCrossan: I missed the point. Was the chairman giving the answer to my question to Mr. Dodge only, or was he suggesting that there was an amendment?

The Chairman: The way I read Mr. Dodge's letter is that the amendment cures the problem for \$2.5 billion of Canada Savings Bonds.

• 1545

There may be some \$600 million of provincial savings bonds issued between 1978 and 1981 that may or may not be outstanding, that may or may not be redeemed at this point. There is no certainty on that, and the government has no figures concerning other issuers of compound debt. My conversation with the Minister was that he would be most delighted to look into this matter, but he really was hoping we would not go ahead with an amendment, but of course the amendment is up to the question of the committee.

It is line 48 on page 3 of the bill, starting again in lines 1 to 4 on page 4.

Mr. McCrossan: The mechanism is to deem them issued on December 31, 1985... causes the 1988 accrual. Is that the mechanism you are using?

Mr. Harold White (Senior Official, Corporations and Capital Gains, Legislation Division, Tax Policy and Legislation Branch, Department of Finance): Yes, that is right.

Mr. McCrossan: The point I raised when we were in committee before was that the outstanding provincials were mostly 10 years, and you seem to feel that the depositors who entered into a contract with the Government of Canada should be protected through the extra year, but the depositors who entered into contracts with the province, under the exact same laws, under identical contracts, should not be protected where there are 10-year provincial bonds outstanding.

[Traduction]

composé qui pourraient éventuellement être touchées par un report encore plus long? J'ai soulevé cette question le mercredi 18.

M. Farber: Monsieur le président, je n'ai pas la réponse sous la main. J'imagine qu'il s'agit de la totalité des obligations en vigueur à ce moment-là, et il peut y avoir autre chose que des obligations d'épargne provinciales. Il pourrait bien y avoir des obligations de sociétés dont nous ne sommes pas au courant.

Quant à savoir si le report devrait dépasser l'échéance de 10 ans de l'obligation, les changements qui pourraient être apportés jusqu'à 1991, soit le prochain troisième anniversaire, s'appliqueraient de toute façon à ces obligations sans dépasser la période de 10 ans.

Je ne sais si la prolongation de l'échéance d'une obligation aurait un effet après cela.

M. McCrossan: Je n'ai pas très bien compris. Est-ce que le président donnait uniquement la réponse à ma question à M. Dodge, ou est-ce qu'il proposait qu'il y ait un amendement?

Le président: Selon ce que je comprends de la lettre de M. Dodge, l'amendement résout le problème pour 2,5 milliards de dollars d'obligations d'épargne du Canada.

Il se peut que quelque 600 millions de dollars d'obligations provinciales d'épargne émises entre 1978 et 1981 aient ou non été rachetées. Il n'y a aucune certitude à cet égard et le gouvernement ne dispose d'aucun chiffre concernant les autres émetteurs d'obligations à intérêt composé. Selon ma conversation avec le ministre, il serait ravi d'étudier cette question, mais il espère que nous ne présenterons pas d'amendements, bien que cela soit évidemment au Comité d'en décider.

Il s'agit de la ligne 44, à la page 3 du projet loi, puis des lignes 1 à 4 de la page 4.

M. McCrossan: Le mécanisme, c'est de les réputer émises le 31 décembre 1985... et cela fait échoir les intérêts en 1988. Est-ce bien le mécanisme que vous utilisez?

M. Harold White (haut fonctionnaire, Corporations et gains en capital, Division de la législation, Direction de la politique et de la législation de l'impôt, ministère des Finances): Oui, c'est exact.

M. McCrossan: J'ai déjà dit en comité que les obligations provinciales en vigueur étaient pour la plupart de 10 ans, et vous semblez estimer que les déposants qui ont conclu un contrat avec le gouvernement du Canada devraient être protégés pendant une année supplémentaire, mais que ceux qui ont conclu avec la province, en vertu des mêmes lois, des contrats identiques, ne devraient pas être protégés dans le cas d'obligations provinciales de 10 ans.

[Text]

Since you indicated that these provincial bonds were all issued between 1978 and 1981, in a sense of equity does it not make sense to cover those contracts up to 1991? Because with the one year you cover 2.5 of the 3.1 problem. So how in equity can you reasonably say that we only look after our own and anybody else who bought the identical obligation from a provincial government, in the anticipation of identical treatment, should have to pay accrued interest where they in fact have not received any interest?

Mr. Farber: I have some difficulty addressing that question at this point in time. It is the same as it was when it was raised before, as the hon. member indicates. In theory, I have no difficulty with the proposition on the grounds of equity. However, I guess I would say we would not know at this point in time how many outstanding provincial bonds there would be, given the third anniversary date that had been noted in the bill. Therefore, a number of them may well have been cashed in.

They all benefited from the one-year deferral to 1988 as well, so to the extent that interest would have to have been accrued in 1987, they would have benefited from that one-year accrual in the same manner as holders of CSBs would have benefited as well. I would not have any knowledge as to the extent to which these bonds were actually compound bond instruments. There may well have been some bonds that were actually paying out on a yearly or bi-yearly basis; I just do not know.

However, in direct reply to your question, in terms of equity, I understand where you are coming from. I do not have a specific answer for that, other than that the government saw fit to introduce a third anniversary accrual, and because of the outstanding CSB issue that was in the marketplace, wherein the interest had to be accrued a year before the pay-out, it saw fit to allow the third anniversary to be deferred for one year, which was applicable to all bond-holders at that point in time.

Mr. McCrossan: If I understand what you have said, the \$2.5 billion is compound, and that is the known amount of outstanding CSBs—is that right?

Mr. Farber: Yes, I believe that is right. The \$600 million, on the other hand, is the amount of issued provincial securities, not the amount outstanding. There is no breakdown as to whether there is compound or simple interest paying.

The Chairman: The issue is there are 600 provincial savings bonds issued between 1978 to 1981 inclusive. There is no statement as to whether any of those were compound or how many of them were compound, and to what extent the term of those bonds was.

[Translation]

Puisque vous avez dit que ces obligations provinciales ont toutes été émises entre 1978 et 1981, ne serait-il pas équitable que ces contrats soient couverts jusqu'à 1991? En effet, avec une année, on couvre 2.5 du problème de 3.1. Comment pouvez-vous équitablement dire que nous ne nous occupons que des nôtres et que quiconque a acheté une obligation identique à un gouvernement provincial, en s'attendant à un traitement identique, devrait payer l'impôt sur les intérêts accumulés sans en avoir effectivement reçus?

M. Farber: J'éprouve une certaine difficulté à répondre à cette question à ce moment-ci. Elle a d'ailleurs été soulevée sous la même forme, comme l'a dit le député. En théorie, la proposition ne me pose pas de problème d'équité. Toutefois, nous ne savons pas à ce moment-ci combien d'obligations provinciales sont encore en circulation, étant donné la date du troisième anniversaire indiquée dans le projet de loi. Il se pourrait bien qu'un certain nombre d'entre elles aient été rachetées.

Elles ont toutes bénéficié du report de un an jusqu'en 1988, et dans la mesure où les intérêts auraient dû être calculés en 1987, elles auraient bénéficié de ce report de un an de la même façon que les obligations d'épargne du Canada. Je ne sais dans quelle mesure ces obligations étaient effectivement des obligations à intérêt composé. Il se peut que certaines comportent des versements annuels ou semestriels d'intérêt, je ne le sais tout simplement pas.

Toutefois, pour répondre à votre question en ce qui touche l'équité, je comprends ce que vous voulez dire. Je n'ai pas de réponse précise, si ce n'est que le gouvernement a jugé bon d'introduire la déclaration des intérêts au troisième anniversaire, et qu'à cause de l'existence d'une émission d'obligations d'épargne du Canada pour lesquelles les intérêts devaient être déclarés un an avant le versement, il a jugé bon de permettre que le troisième anniversaire soit reporté d'un an, ce qui s'appliquait à tous les détenteurs d'obligations à ce moment-là.

M. McCrossan: Si je comprends bien ce que vous avez dit, les 2.5 milliards de dollars représentent le montant connu des obligations d'épargne du Canada à intérêt composé actuellement en circulation—est-ce exact?

M. Farber: Oui, je crois que c'est exact. Par ailleurs, les 600 millions représentent les titres provinciaux émis, et non ceux qui sont en circulation. Il n'y a aucune ventilation quant à l'intérêt simple ou à l'intérêt composé.

Le président: Six cents millions de dollars d'obligations d'épargne provinciales ont été émises entre 1978 et 1981 inclusivement. On ne sait si certaines de ces obligations étaient des obligations à intérêt composé, ni combien il y en avait, ni quelle était exactement l'échéance de ces obligations.

[Texte]

Mr. Farber: I think, Mr. Chairman, by and large the term of those bonds—

Mr. McCrossan: Is 10 years or less.

Mr. Farber: —is probably 10 years. Yes. A maximum of 10 years. It may well have been less. Certainly, the Province of Quebec bonds were 10-year bonds.

Mr. McCrossan: Were they compound? Do you know?

Mr. Farber: I do not know. I am sorry.

Mr. Bert Waslander (Research Officer): Mr. Chairman, my information is that they were.

Mr. McCrossan: So you are saying that what we are proposing here is that people who bought Government of Canada compound savings bonds do not have to pay tax until they receive the interest. The people who buy Government of Quebec savings bonds have to pay tax before they receive interest.

Mr. Waslander: That is the thrust of our proposal in Bill C-64. The amendment, of course, corrects that.

Miss Nicholson: I just wanted to point out that Mr. McCrossan raised this matter on November 18, and he pointed out the inequity of it. In fact, he went so far as to call it a question of morality. I am surprised to hear the officials coming back today and saying they do not have the facts. I would like to know exactly what kind of fact finding was done following Mr. McCrossan's raising of the issue.

Mr. Farber: The fact finding was as addressed in the letter to the chairman, and those were the figures that we were able to get. Those are the figures as best we know them. The one point I would want to correct, however, which the hon. member indicated earlier, is that the one-year deferral did not just apply to Canada Savings Bond holders. Everybody benefited from a one-year deferral. So to the extent that interest would have had to be accrued in that particular year for both Canada Savings Bond holders as well as Provincial Bond holders, everybody benefited from the one-year accrual.

The question at hand right now is, CSBs were seven-year bonds and certain Provincial Bonds were ten-year bonds. So the question was: Should there have properly been a deferral for a further three years for those bonds that had a 10-year term? That is really the question on the table, I think. There certainly was no inequity in giving everybody a one-year deferral.

Mrs. Collins: Just a point of clarification. If people buy Provincial Bonds anytime after 1982, I assume they would

[Traduction]

M. Farber: Je pense, monsieur le président, qu'en gros l'échéance de ces obligations. . .

M. McCrossan: Est de 10 ans ou moins.

M. Farber: . . . est probablement de 10 ans. Oui. Un maximum de 10 ans. Et peut-être moins. En tout cas, les obligations de la province de Québec étaient des obligations de 10 ans.

M. McCrossan: S'agissait-il d'obligations à intérêt composé? Le savez-vous?

M. Farber: Je ne le sais pas. Je regrette.

M. Bert Waslander (agent de recherche): Monsieur le président, selon les renseignements dont je dispose, il s'agissait d'obligations à intérêt composé.

M. McCrossan: Vous dites donc que ce qui est proposé ici, c'est que ceux qui ont acheté des obligations d'épargne du Canada à intérêt composé n'auront pas à payer d'impôt avant d'avoir reçu les intérêts. Ceux qui achètent des obligations d'épargne du gouvernement du Québec doivent payer l'impôt avant de recevoir les intérêts.

M. Waslander: C'est là le sens de notre proposition dans le projet de loi C-64. L'amendement rectifie évidemment cela.

Mme Nicholson: Je voulais souligner que M. McCrossan a soulevé cette question le 18 novembre et qu'il en a fait valoir le caractère inéquitable. En fait, il a même dit qu'il s'agissait d'une question de moralité. Je suis étonné d'entendre les fonctionnaires dire aujourd'hui qu'ils ne sont pas au courant des faits. J'aimerais savoir quelles recherches ont été faites après que M. McCrossan eut soulevé cette question.

M. Farber: Les recherches sont traitées dans la lettre au président, et ce sont là les chiffres que nous avons pu obtenir. Ce sont les chiffres au meilleur de notre connaissance. J'aimerais toutefois apporter une rectification à ce qu'a dit le député tout à l'heure, et préciser que le report d'un an ne s'appliquait pas uniquement aux détenteurs d'obligations d'épargne du Canada. Tout le monde bénéficiait du report d'un an. Dans la mesure où les intérêts auraient dû être calculés cette année-là tant pour les détenteurs d'obligations d'épargne du Canada que pour les détenteurs d'obligations provinciales, tout le monde a bénéficié du report.

La question qui se pose maintenant tient au fait que les obligations d'épargne du Canada étaient des obligations de sept ans tandis que certaines obligations provinciales étaient des obligations de 10 ans. La question qui se posait était donc de savoir s'il devait y avoir un nouveau report de trois ans pour les obligations de 10 ans? C'est là vraiment la question à l'étude, je crois. Il n'y avait en tout cas rien d'inéquitable à accorder un report d'un an à tout le monde.

Mme Collins: Une précision, s'il vous plaît. Dans le cas des obligations provinciales achetées après 1982,

[Text]

still have compound bonds provincially, although we do not have compound CSBs any more.

The Chairman: Nobody would buy them any more simply because the effect of the 1981 legislation was to provide that every three years you have to pay the income tax on the interest, whether you have received it or not. The concept of a compound bond was that the bond interest just compounded itself and then when you cashed the bond, you paid your tax.

Mrs. Collins: So the provinces have not been issuing them since then either.

The Chairman: Nobody has been issuing them since then, as a practical matter.

Mr. Farber: Well, that might be correct, Mr. Chairman. I do not really have the answer to that. I do not work in the bond area. But I might say, they may well issue compound bonds, because many individuals who buy bonds, even on a compound interest basis, would have benefited from the \$1,000 interest deduction. So the first \$1,000 of interest was non-taxable at any rate, and for certain bond holders that may well be a very attractive way of saving money. The interest continues to compound, and it may well be declared on an annual basis, which any taxpayer has the option to do at any rate and still be non-taxable. To that extent, I really could not answer what effect that might have on any particular province in issuing compound debt instruments.

Mr. McCrossan: Just following up on Miss Nicholson's question. Did anybody phone the Government of Quebec and ask them how many of these things are outstanding? I mean, it is pretty simple in two weeks to make a phone call.

Mr. Farber: Mr. Chairman, no, I did not make a phone call. I got this information from our Financial Institutions Division within the Department of Finance. I thought that was the information we were asked to provide. That is the information I was able to garner. If more information is requested, I would be more than happy to get it.

• 1555

Mr. McCrossan: I would like to stand this particular clause and request that the officials make the phone calls to the appropriate provincial governments and find out how much of this stuff is around. In the absence of that, I would be prepared to move amendments, but I would like to at least find out what the size of the problem is. Are we talking principle?

Clause 3 allowed to stand.

On clause 4

Miss Nicholson: No amendment. We have a further explanation of the interest accrual rule.

[Translation]

j'imagine qu'il y aurait toujours des obligations provinciales à intérêt composé, bien que cela ne soit plus le cas pour les obligations d'épargne du Canada.

Le président: Personne ne voulait plus en acheter tout simplement en raison de l'effet de la mesure législative de 1981 d'après laquelle il faut payer l'impôt sur le revenu tous les trois ans sur les intérêts, qu'on les ait ou non perçus. L'idée de l'obligation à intérêt composé était que les intérêts étaient composés et que l'on ne payait l'impôt qu'au moment d'encaisser l'obligation.

Mme Collins: Alors les provinces n'en ont pas émis non plus depuis lors.

Le président: À toutes fins utiles, personne n'en émet depuis lors.

M. Farber: Il pourrait bien en être ainsi, monsieur le président. Je n'ai pas vraiment de réponse à cette question, car je ne travaille pas dans le domaine des obligations. Mais il se pourrait que les provinces émettent des obligations à intérêt composé, car de nombreux acheteurs auraient pu bénéficier de la déduction de 1,000\$ pour intérêt, même dans le cas d'intérêt composé. La première tranche de 1,000\$ d'intérêt n'étant pas imposable, pour certains détenteurs d'obligations, cela aurait pu être une façon très intéressante d'épargner de l'argent. Les intérêts continuent de se composer, et ils pourraient bien être déclarés annuellement, ce que peut faire n'importe quel contribuable, et demeurer non imposables. C'est pourquoi je ne pourrais vraiment dire quel effet cela pourrait avoir sur une province qui émet des obligations à intérêt composé.

M. McCrossan: Pour donner suite à la question de M^{lle} Nicholson. Est-ce que quelqu'un a téléphoné au gouvernement du Québec pour demander combien de ces obligations sont en vigueur? Il me semble que deux semaines suffisent amplement pour faire un appel téléphonique.

M. Farber: Monsieur le président, non, je n'ai pas téléphoné. J'ai obtenu ce renseignement de la Division des institutions et des marchés financiers du ministère des Finances. Je croyais que c'était là les renseignements qu'on nous demandait. Ce sont là les renseignements que j'ai pu recueillir. Si on demande d'autres renseignements, je me ferai un plaisir de les obtenir.

M. McCrossan: J'aimerais reporter cet article et demander que les fonctionnaires téléphonent aux gouvernements provinciaux en cause pour savoir combien d'obligations sont en circulation. À défaut, je serais prêt à proposer des amendements, mais j'aimerais au moins connaître l'ampleur du problème. S'agit-il d'un principe?

L'article 3 est reporté.

Article 4

Mme Nicholson: Aucun amendement. Nous avons une nouvelle explication de la règle de calcul des intérêts.

[Texte]

Mr. Farber: Mr. Chairman, that has nothing to do with the interest accrual rules. These are—

Miss Nicholson: I am sorry, I passed the wrong one. But could we have a further explanation of subclause 4.(2)?

Mr. Farber: I will ask Mr. White to give you an explanation. These are amendments consequential to the loss-trading rules that were announced January 15.

Mr. Harold White: Mr. Chairman, this rule provides that where a company acquires depreciable property within 12 months before a change of control of the corporation, the property is not treated as having been acquired until after the change of control. That applies where the property is not used in business carried on immediately before the 12-month period before the change of control.

The reason for this change is to prevent a situation that could arise where a company that knows it is going to take control of another company, and the company acquiring control has depreciable property that it does not need to claim capital cost allowance on, the company could transfer that depreciable property to the target company which could take the capital cost allowance on it. Then after the corporate takeover the purchaser corporation in effect would have benefited from that depreciable property by virtue of the fact that the target company would have paid less income tax for that year.

Clauses 4 and 5 agreed to.

On clause 6

Mr. McCrossan: On clause 6 and the consequential clauses on RCAs, may I ask how the offside Government of Canada pension plans are treated with respect to RCAs, please? For retirement compensation arrangements or RCAs, is this to enact the measure in the May 1985 budget with respect to offside pension plans?

Mr. Farber: Yes.

Mr. McCrossan: The Government of Canada pension plans, whether they be the MPs plan or whether they be the Public Service Superannuation Act, RCMP and so on, are all offside plans in terms of the definitions allowed in Information Circular 7213. What is happening with those plans since we have set up penalty provisions in this clause with respect to all employers other than the Government of Canada? What is the Government of Canada doing in these clauses in respect of its own plans that exceed the maximum in the law?

Mr. Farber: Mr. Chairman, I do not believe these retirement compensation arrangements provisions, as I am sure Mr. McCrossan well knows, deals with those offside plans. We have been engaged in a pension reform

[Traduction]

M. Farber: Monsieur le président, cela n'a rien à voir avec les règles touchant le calcul des intérêts. Il s'agit. . .

Mme Nicholson: Je regrette, je me suis trompé. Mais pourrions-nous avoir une nouvelle explication du paragraphe 4.(2)?

M. Farber: Je demanderai à M. White de vous donner une explication. Il s'agit des modifications corrélatives aux règles touchant les transferts de pertes annoncées le 15 janvier.

M. Harold White: Monsieur le président, cette règle dispose que, si une société acquiert un bien amortissable dans les douze mois qui précèdent un changement de contrôle, les biens sont réputés n'avoir été acquis qu'après le changement de contrôle. Cela s'applique si le bien n'est pas utilisé dans une entreprise exploitée immédiatement avec ces 12 mois.

Cette modification a pour but d'empêcher une situation qui pourrait se présenter si une société qui sait qu'elle va prendre le contrôle d'une autre société et qui possède un bien amortissable sur lequel elle n'a pas besoin de réclamer la déduction pour amortissement, transférerait ce bien amortissable à la société cible qui pourrait bénéficier de la déduction pour amortissement. Ensuite, après la prise de contrôle, la société acheteuse aurait effectivement bénéficié de ce bien amortissable car la société cible aurait payé moins d'impôt sur le revenu cette année-là.

Les articles 4 et 5 sont adoptés.

Article 6

M. McCrossan: Sur l'article et les articles corrélatifs touchant les conventions de retraite, est-ce que je peux demander, s'il vous plaît, comment les régimes de retraite parallèles à ceux du gouvernement du Canada sont traités en ce qui concerne les conventions de retraite? S'agit-il d'adopter la mesure contenue dans le budget de mai 1985 touchant les régimes de pension parallèles?

M. Farber: Oui.

M. McCrossan: Les régimes de pensions du gouvernement du Canada, qu'il s'agisse de celui des députés, de celui de la Loi sur les pensions de retraite dans la Fonction publique, celui de la GRC et ainsi de suite, sont tous des régimes parallèles au sens des définitions énoncées dans la circulaire d'information 7213. Qu'arrive-t-il à ces régimes depuis que nous avons établi des sanctions à l'égard de tous les employeurs autres que le gouvernement du Canada? Que fait le gouvernement du Canada dans ces clauses à l'égard de ses propres régimes qui dépassent le maximum permis par la loi?

M. Farber: Monsieur le président, je ne crois pas que ces conventions de retraite, comme M. McCrossan le sait bien, j'en suis sûr, traitent de ces régimes parallèles. Nous sommes engagés dans un mécanisme de réforme des

[Text]

process now for the last year or two. I believe a paper on pension reform was issued by the government in October of last year.

Mr. McCrossan: That is correct.

Mr. Farber: That work is continuing on with a view to finalizing that legislation. I cannot tell you at this point in time how offside plans which relates to Members of Parliament, to judges, as well as provincial Members of Parliament, will be dealt with at this point in time. This has been somewhat of a controversial issue and has been a difficult one to deal with.

Mr. McCrossan: Well, let us take the provinces then, and provincial Crown corporations.

Mr. Farber: All I am saying, Mr. McCrossan, is that these retirement compensation arrangements do not deal with that. I think there may well be another opportunity to deal with those issues. As I am sure you well know, these are retirement compensation arrangements that are dealing with offside plans more in the public sector.

Mr. McCrossan: The principle underlying this was these compensation arrangements were used in cases where the employer was not currently tax paying, either as a result of the employer not being taxable in the first place, or as a result of the employer having business losses and not paying taxes.

The evidence we heard was that the vast bulk of these offside plans were in hospitals and universities and Crown corporations of the provinces, particularly in western provinces, and indeed in the federal Public Service. I guess I have a similar equity concern in these provisions here, as they affect the private sector because if you tell me that these provisions take no action whatsoever against any government, federal or provincial, municipality. . . For example, I know that the municipality of Metropolitan Toronto is just in the process of approving an offside pension plan on the basis that they can do it with impunity.

Now, how can you set up one set of laws for all individuals who happen to be employed by a corporation and then not have these laws apply to anybody who happens to work for a federal government or a provincial government or subdivision thereof or Crown corporation or agency and not even make any attempt to deal with these things in the legislation? We have identified that the major source of abuse is in the government sector, and all we are doing in these apparently is closing up the private sector and saying that it is one rule for us and another rule for them. It is exactly the same point as with the Canada Saving Bond issue, except there it was federal versus provincial.

Mr. Farber: Mr. Chairman, I am not equipped today to deal with those issues. When I appeared before the committee on November 18 I brought all technical experts to deal with all the technical aspects of the various provisions in an attempt to be as informative as possible

[Translation]

pensions depuis maintenant un an ou deux. Je crois que le gouvernement a publié un document sur la réforme des pensions en octobre de l'an dernier.

M. McCrossan: C'est exact.

M. Farber: Ce travail se poursuit, dans le but de finaliser les mesures législatives. Je ne saurais dire comment seront traités les régimes concernant les députés, les juges et les députés provinciaux. Il s'agit d'une question assez controversée et difficile à régler.

M. McCrossan: Eh bien, parlons des provinces, et des sociétés provinciales de la Couronne.

M. Farber: Tout ce que je dis, monsieur McCrossan, c'est que les conventions de retraite ne portent pas là-dessus. Je crois qu'il pourrait bien y avoir une autre occasion de s'occuper de ces dossiers. Comme vous le savez, il s'agit de conventions de retraite portant sur des régimes parallèles appartenant davantage au secteur public.

M. McCrossan: Le principe sous-jacent était que ces conventions de retraite étaient utilisées dans les cas où l'employeur ne versait pas d'impôt, soit parce qu'il n'était pas imposable, soit parce qu'il avait des pertes commerciales.

Selon les témoignages que nous avons entendus, la grande majorité de ces régimes se retrouvent dans les hôpitaux, les universités et les sociétés de la Couronne des provinces, surtout dans les provinces de l'Ouest, et même dans la Fonction publique fédérale. J'ai à cet égard des inquiétudes du même genre concernant l'équité à l'endroit du secteur privé, car si vous me dites que ces dispositions ne comprennent aucune mesure contre une administration, fédérale, provinciale ou municipale. . . Par exemple, je sais que la municipalité du Toronto Métropolitain est en train d'approuver un régime de pensions parce qu'elle peut le faire impunément.

Or, comment peut-on établir un ensemble de lois pour toutes les personnes qui sont employées par une société sans que ces lois ne s'appliquent à ceux qui travaillent pour le gouvernement fédéral, un gouvernement provincial, une subdivision de ces gouvernements ou une société ou une organisme de la Couronne, sans tenter de traiter de cela dans la législation? Nous avons constaté que la principale source d'abus se trouve dans le secteur gouvernemental, et nous nous contentons apparemment de rendre les règles plus strictes pour le secteur privé et de dire qu'il y a une règle pour nous et une autre pour eux. C'est exactement la même chose que dans le cas des obligations d'épargne du Canada, si ce n'est qu'il s'agissait là d'une différence entre le fédéral et les provinces.

M. Farber: Monsieur le président, je ne suis pas en mesure de traiter de ces dossiers aujourd'hui. Quand j'ai comparu devant le Comité le 18 novembre, j'ai amené tous les experts techniques pour traiter des divers aspects techniques dans le but de fournir toute l'information

[Texte]

with respect to all the nuances and technical details affecting not just retirement compensation arrangement but also loss trading and all the other issues. I do not have my technical expert on retirement compensation arrangements available today. I would be pleased to provide answers to that if required at a later date. I was under the impression that all issues concerning retirement compensation arrangements had already been dealt with.

The Chairman: I thought they had been.

• 1605

Mr. McCrossan: The 18th announcement clearly states that action would be taken against all offside plans through mandating retirement compensation arrangements, and that these provisions would apply to both the government sector and the private sector. It talks about deductions for pension contributions, which of course does not affect the non-taxpaying sector at all.

Mr. Farber: We dealt with retirement compensation arrangements on the 19th. Unfortunately I do not have the answer to that today. I can either get the appropriate officials in touch with Mr. McCrossan or provide you with a written answer to that sometime tomorrow.

Mr. McCrossan: Since we are likely to be on the bill tomorrow, perhaps you could have your technical officials here and we could stand the clause and related clauses.

The Chairman: The immediate related clause is 7, is that correct?

Miss Nicholson: I believe 64 and 69 are also related.

Mr. Farber: I think you will find a great number of clauses are related to this clause. There are many clauses, a large majority in fact, that are consequential to retirement compensation arrangements.

The Chairman: Why are we are deferring this? What is really the issue?

Mr. McCrossan: Mr. Chairman, I would like to know whether consideration was given to attacking the real problem, the governmental agencies, and whether it was abandoned or whether this clause can be amended in such a way as to cover these at this point. There was a massive tax leakage particularly from government agencies in Western Canada. When the Minister announced his actions with respect to RCAs last October, he clearly indicated he would be dealing with the whole problem. Now it appears he is not dealing with even the tip of the iceberg because there is virtually none of this in the private sector.

Mr. Farber: I understand these retirement compensation arrangements apply to all agencies of the Crown except for those agencies that have immunity from the Crown. That would explain the MP plans, the

[Traduction]

possible sur les nuances et les détails techniques touchant non seulement les conventions de retraite, mais aussi le transfert des pertes et tous les autres dossiers. Je n'ai pas aujourd'hui à ma disposition d'experts techniques sur les conventions de retraite. Je serai heureux de fournir des réponses plus tard, si on me les demande. Je croyais qu'on avait déjà traité de toutes les questions touchant les conventions de retraite.

Le président: C'est ce que je pensais moi aussi.

M. McCrossan: L'annonce du 18 mentionne clairement que des mesures seront prises contre tous les régimes parallèles en rendant obligatoire les conventions de retraite, et que ces dispositions s'appliqueront à la fois au secteur gouvernemental et au secteur privé. L'annonce parle des déductions pour les cotisations de retraite, qui ne touchent évidemment pas le secteur non contribuable.

M. Farber: Nous avons parlé des conventions de retraite le 19. Malheureusement, je n'ai pas la réponse à cela aujourd'hui. Je peux soit demander aux fonctionnaires intéressés de communiquer avec M. McCrossan ou vous fournir une réponse écrite demain.

M. McCrossan: Puisque nous traiterons vraisemblablement du projet de loi demain, peut-être pourriez-vous faire venir vos techniciens, et nous reporterons en attendant cet article et les articles connexes.

Le président: L'article immédiatement connexe est l'article 7, n'est-ce pas?

Mme Nicholson: Je crois que les articles 64 et 69 portent également sur ce sujet.

M. Farber: Je crois que vous trouverez un grand nombre d'articles qui sont liés à celui-ci. Il y en a un grand nombre, une grande majorité en fait, qui découlent des conventions de retraite.

Le président: Pourquoi reportons-nous ce sujet? De quoi s'agit-il vraiment?

M. McCrossan: Monsieur le président, j'aimerais savoir si l'on a songé à s'attaquer au véritable problème, les organismes gouvernementaux, et si l'on a abandonné cette tentative ou si cet article peut être modifié de façon à couvrir ces organismes. Il y a eu des fuites importantes, particulièrement de la part des organismes gouvernementaux de l'Ouest canadien. Quand le ministre a annoncé ses mesures à l'égard des conventions de retraite en octobre dernier, il a clairement déclaré qu'il s'occuperait de l'ensemble du problème. Maintenant, il semble qu'il ne s'occupe même pas de la pointe de l'iceberg, car il n'y a presque rien dans ce sens dans le secteur privé.

M. Farber: Je crois savoir que ces conventions de retraite s'appliquent à tous les organismes de la Couronne, sauf pour ceux qui jouissent de l'immunité. Cela expliquerait les régimes des députés, des députés

[Text]

provincial MPPs, and the judges' plans, the three with which I am sure you are very familiar.

Mr. McCrossan: What about Crown corporations?

The Chairman: They are not included.

Mr. Farber: I do not believe they are immune, and therefore the RCA provisions would apply to them.

Mr. McCrossan: And to the hospitals?

Mr. Farber: I believe so.

Mr. McCrossan: And to the universities?

Mr. Farber: The major areas it does not cover are the federal MPs, the provincial MPs and the judges.

Mr. McCrossan: And all public servants?

Mr. Farber: That may very well be. I guess the Public Service Superannuation Plan may well be an offside plan.

Mr. McCrossan: Is it covered? The answer has actually changed in the last little bit; so I have some more comfort in terms of the hospitals and the universities that were really playing the games. Can we confirm that they are really caught, because they were the worst abusers?

• 1610

Mr. Farber: I will try to confirm that. I do not have that knowledge readily available.

Clauses 6 and 7 allowed to stand.

On clause 8.

Mr. Attewell: A point of order, Mr. Chairman. Could you refresh my memory please? How many people are voting on the government side here? Is it six when we get to some votes? We have eight people here on this side.

The Chairman: All eight. Nine can vote, actually.

Mr. Attewell: I thought the committee was 11 people.

The Chairman: I can vote too, but eight people on the government side are voting. There are 13 on the committee. Everyone here is registered as a supplement or a replacement of someone who would normally be on the committee.

Mr. Cassidy: I want to congratulate the hon. members for their interest in such sections as the one we are studying right now.

The Chairman: I think it is amazing the amount of interest you get at these things. It really is a serious committee, Mr. Cassidy.

Mr. Cassidy: Yes, I know. I suggest in order to have the continued participation that we stand clause 10 and keep on with the bill.

[Translation]

provinciaux et des juges, trois régimes que vous connaissez sûrement très bien.

M. McCrossan: Et les sociétés d'État?

Le président: Elles ne sont pas visées.

M. Farber: Je ne crois pas qu'elles jouissent de l'immunité, et donc les dispositions touchant les conventions de retraite s'appliqueraient à elles.

M. McCrossan: Et aux hôpitaux?

M. Farber: Je le crois.

M. McCrossan: Et aux universités?

M. Farber: Les principaux secteurs qui ne sont pas couverts sont les députés fédéraux et provinciaux et les juges.

M. McCrossan: Et tous les fonctionnaires?

M. Farber: Cela se pourrait bien. J'imagine que le Régime de retraite de la Fonction publique pourrait bien être un régime parallèle.

M. McCrossan: Est-il couvert? La réponse s'est effectivement modifiée depuis un instant; je me sens donc un peu plus à l'aise à l'égard des hôpitaux et des universités qui jouaient à ce jeu. Sera-t-il possible de confirmer qu'ils sont réellement visés, car ils étaient ceux qui commettaient le plus d'abus?

M. Farber: J'essaierai de confirmer cela. Je n'ai pas le renseignement à ma disposition.

Les articles 6 et 7 sont reportés.

Article 8.

M. Attewell: J'invoque le Règlement, monsieur le président. Auriez-vous la bonté de me rafraîchir la mémoire. Combien de personnes votent ici du côté du gouvernement? Y en a-t-il six lorsque nous en venons à certains votes? Nous avons huit personnes ici de ce côté.

Le président: Les huit. En fait, neuf ont droit de vote.

M. Attewell: Je pensais que le comité se composait de onze personnes.

Le président: Je peux voter moi aussi, mais huit personnes votent du côté du gouvernement. Le comité se compose de treize membres. Toutes les personnes présentes sont là à titre de membre supplémentaire ou pour remplacer quelqu'un qui fait normalement partie du comité.

M. Cassidy: Je désire féliciter les députés pour l'intérêt qu'ils portent à des articles comme celui que nous étudions actuellement.

Le président: Je crois que l'intérêt manifesté est tout à fait étonnant. C'est vraiment un comité sérieux, monsieur Cassidy.

M. Cassidy: Oui, je le sais. Pour conserver cette participation, je suggère que nous reportions l'article 10 et que nous continuions l'étude du projet de loi.

[Texte]

Mr. Attewell: Mr. Chairman, is it just a sheer coincidence that half our side is from Vancouver and Montreal? Strange how these things happen.

Clauses 8 and 9 agreed to.

On clause 10.

Mr. Warner: Mr. Chairman, I move that subclause 10.(3) of Bill C-64 be amended by adding immediately after "British Columbia" the following:

or in the area of Akwesasne in the Province of Ontario
or in the Province of Quebec.

As you know, this subclause deals with the locations that will be designated as international banking centres. I am suggesting, in addition to Vancouver and Montreal, that Akwesasne be considered. This community is unique in that it is a community that exists in two provinces, Ontario and Quebec, and I am quite pleased to see my neighbour and colleague le député de Beauharnois—Salaberry and le député pour partie de cette circonscription.

Akwesasne is also located in New York State in the United States. It is a relatively small community being only about 30 square miles in size, a population of about 10,000 people, 6,000 of whom live in the Canadian portion and 4,000 in the American portion. However, all citizens of Akwesasne have some very special rights and status through tradition and through existing law. Income earned by residents of Akwesasne and earned in this community is tax-free, tax-free both in Canada and in the United States and from state and provincial governments.

The citizens of Akwesasne also enjoy dual citizenship, something unique in North America and of special significance and importance to this committee when they are considering an international banking centre which could by this designation be available to conduct other financial activities in the banking field and possibly in the areas of other financial intermediaries.

As the committee knows, the job-creation potential of this designation is very limited. The committee suspects, and I quote, "Probably the banks will only transfer existing positions and will certainly not create many jobs". That is the indication this still continues.

[Traduction]

M. Attewell: Monsieur le président, est-ce une simple coïncidence que la moitié de notre côté vienne de Vancouver et de Montréal? Ces choses sont étonnantes.

Les articles 8 et 9 sont adoptés.

Article 10.

M. Warner: Monsieur le président, je propose que le paragraphe 10.(3) du projet de loi C-64 soit modifié par addition, immédiatement après «Colombie-Britannique», de ce qui suit:

ou dans la région de Akwesasne dans la province de l'Ontario ou dans la province de Québec.

Comme vous le savez, ce paragraphe porte sur les endroits qui seront désignés centres bancaires internationaux. Je propose qu'on étudie, en plus de Vancouver et de Montréal, la candidature d'Akwesasne. Cette localité est unique car elle est située dans deux provinces, l'Ontario et le Québec, et je suis très heureux de voir mon voisin et collègue, le député de Beauharnois—Salaberry, et le député pour partie de cette circonscription.

Akwesasne est également situé dans l'État de New York aux États-Unis. C'est une localité assez petite, d'une superficie d'environ 30 milles carrés, qui compte une population d'une dizaine de milliers de personnes, dont 6,000 habitent la portion canadienne et 4,000 habitent la portion américaine. Cependant, tous les citoyens d'Akwesasne ont des droits et un statut bien particuliers que reconnaissent la tradition et la loi en vigueur. Les revenus gagnés sur place par les résidents d'Akwesasne ne sont pas imposables, ni au Canada ni aux États-Unis, ni par les États, ni par les provinces.

Les citoyens d'Akwesasne jouissent également de la double citoyenneté, ce qui est unique en Amérique du Nord, et particulièrement important pour ce comité lorsqu'il s'agit d'étudier la possibilité d'un centre bancaire international qui pourrait en même temps s'occuper d'autres activités financières dans le domaine bancaire et peut-être dans le domaine des autres intermédiaires financiers.

Comme le comité le sait bien, le potentiel de création d'emplois de cette désignation est très restreint. Le comité croit que les banques se contenteront probablement de transférer des postes existants et ne créeront certainement pas beaucoup d'emplois. Il semble qu'il en soit toujours ainsi.

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Although by this special designation the three communities of Montreal, Vancouver and Akwesasne would hope they would be able to conduct other affairs, other income-producing, job-creating activities would also be created. I suggest that of the three communities perhaps Akwesasne, because of its special rights already, would have a significant advantage in certain activities.

Cette désignation spéciale permettrait aux trois localités, Montréal, Vancouver et Akwesasne, d'espérer pouvoir s'occuper d'autres affaires, d'autres activités productrices de revenus et créatrices d'emplois. Selon moi, sur les trois localités, c'est peut-être Akwesasne, en raison des droits particuliers dont elle jouit déjà, qui aurait un avantage important à l'égard de certaines activités.

[Text]

As you know, most of Canada's international banking business is conducted with U.S. citizens. The fact that Akwesasne is both in Canada and the United States presents some special opportunities.

As the committee is also aware, international banking centres are not new to New York State. They already have existing international banking centres and would certainly be most interested in perhaps mirroring what we would do here in Canada and acknowledge the special status of Akwesasne.

One of the purposes of this designation is to assist in regional development disparities. I point out that Akwesasne really is without an industrial base and unemployment there is quite high.

The suggestion I was going to make, this motion or amendment, was made to Chief Mike Mitchell. Mr. Mitchell was most receptive to the possible designation, and certainly looks forward to new opportunities the community could have as the international banking community looks much more closely than they have in the past at the opportunities that may be available in this special location.

Being in New York State, the province of Quebec, the province of Ontario and under the jurisdiction of the federal governments of the United States and Canada does present a lot of complications and problems. Perhaps a special designation would help to alleviate some of that complication. Perhaps it may be a unifying force or a unifying catalyst that would allow the citizens of Akwesasne to make a giant step forward as they work toward self-government.

I could go on at length, Mr. Chairman, but I feel that I have touched on some of the main points that this special designation would have, and the importance that it would have in this community.

Mr. Attewell: It is a very, very interesting idea that the honourable colleague puts forth. I would just like to understand a little bit more about, if I may, the profile and the history of this group.

What is the genesis of this? Was Chief Mitchell pounding on your door with this brilliant idea? How did this really get going? Tell us a little bit about the group. How big is this group and what experience have they? Do they have any computer experience? I have some more questions, but if you could just start with some of those, please.

Mr. Warner: The idea stems from the activities the Finance committee has had in the last year, studying in depth the international banking centres as they exist in other locations and as they could exist here. We feel the expertise required to satisfy the requirements of proposed subsection 31.1(9), where there are four different functions that have to be performed in the international banking centre. . .

[Translation]

Comme vous le savez, la plupart des affaires bancaires internationales du Canada sont réalisées avec des citoyens américains. Le fait qu'Akwesasne soit située tant au Canada qu'aux États-Unis présente des occasions particulières.

Comme le comité le sait également, les centres bancaires internationaux ne sont pas une nouveauté dans l'État de New York. Il y a déjà des centres bancaires internationaux, et cet État serait certainement très intéressé à reprendre ce que nous ferions ici au Canada et à reconnaître le statut particulier d'Akwesasne.

Un des débuts de cette désignation est d'aider à rectifier les disparités régionales. Je signale qu'Akwesasne n'a pas vraiment de base industrielle et que le chômage y est très élevé.

La suggestion que j'allais faire, cette proposition ou cet amendement, a été présentée au chef Mike Mitchell. M. Mitchell a très bien accueilli cette possibilité et entrevoit de nouvelles possibilités pour la localité si le monde bancaire international s'intéressait plus étroitement que par le passé aux possibilités que pourraient offrir cet endroit particulier.

Le fait d'être situé dans l'État de New York, dans la province de Québec et dans la province de l'Ontario et de relever de la compétence des gouvernements fédéraux des États-Unis et du Canada entraîne beaucoup de complications et de problèmes. Une désignation spéciale permettrait peut-être de réduire un peu ces complications. Cela pourrait être une force d'unification ou un catalyseur permettant aux citoyens d'Akwesasne d'accomplir de grands progrès sur la voie de l'autonomie.

Je pourrais m'étendre longtemps sur ce sujet, monsieur le président, mais j'estime avoir mentionné certains des points principaux que comporterait cette désignation spéciale, et avoir mentionné l'importance qu'elle aurait dans cette localité.

M. Attewell: C'est là une très intéressante idée que présente mon honorable collègue. J'aimerais toutefois comprendre un petit peu mieux le profil et l'histoire de ce groupe.

Quelle est la genèse de cette proposition? Est-ce le chef Mitchell qui est venu frapper à votre porte pour vous communiquer cette brillante idée? Comment tout a-t-il commencé? Parlez-nous un peu du groupe. Quelle est son importance et son expérience? Est-ce que ces gens ont de l'expérience en informatique? J'ai encore d'autres questions, mais commençons par répondre à celles-ci.

M. Warner: L'idée découle des activités du Comité des finances l'an dernier, de l'étude en profondeur des centres bancaires internationaux qui existent ailleurs et de la forme qu'ils pourraient prendre ici. Nous croyons que le savoir-faire nécessaire pour répondre aux exigences du paragraphe 31.1(9) du projet de loi, selon lequel le centre bancaire international doit assurer quatre fonctions différentes. . .

[Texte]

I feel it would be fairly simple for a large bank to have the analysis done by one of the people who presently does it in Toronto. That person could, I am sure, be responsible for analysis in Akwesasne, with the assistance of some local people.

Yes, they do have experience with computers. The municipal government, or the government of Akwesasne, has broader responsibilities than the normal municipality as they provide social services and a lot of other services that are normally provided by the federal and provincial governments in other municipalities.

They also have access to training by St. Lawrence College for special jobs that may of necessity require special training. So they do have supporting infrastructure in Cornwall and the surrounding area, and also in Akwesasne.

Mr. Attewell: I am not familiar with that area. But there are some Indian groups out west, for instance, that enjoy pretty rich resources, either gas or oil. Is there any wealth in this area in natural resources?

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Mr. Warner: There really is not. As I mentioned earlier, the territory is relatively small. A lot of the territory exists on islands and some islands do not have access to the mainland other than by boat. The traditional wealth in fishing and agriculture has certainly been diminished over centuries. Without an industrial base, the citizens there are quite receptive to possibilities of establishing some sort of business or industrial base that would provide employment for their people. At the present time, they do not have oil royalties or any other revenue other than money that is received from the various governments.

Mr. Attewell: I am sure there are some unique aspects to this group. It begs the question where this might stop. I am familiar with the Indian reserve out at Buckhorn Lake, and there are many across the country. What do you say to some other groups that would want to get into this? There have been some proposals, and we have studied them as a committee: the uniqueness of Vancouver, the time zone aspect, and the help that Vancouver or Montreal may need to help recover from some problem with the exodus of the many major financial institutions like Sun Life and indeed most of the major banks. While called "Bank of Montreal" and its head office may be Montreal, really the action is in Metropolitan Toronto.

Where will this stop, if this motion passes? To be fair to other tribes across the country, what is so unique about this group that this committee should embrace two major cities in the country plus this one group, Akwesasne?

Mr. Warner: Two points make this very unique. I would anticipate that it would stop in Akwesasne; it

[Traduction]

Je crois qu'il serait assez simple pour une grande banque de faire faire l'analyse par l'une des personnes qui font actuellement cela à Toronto. Cette personne pourrait, j'en suis certain, se charger de l'analyse à Akwesasne, avec l'aide de certaines personnes de la localité.

Oui, ils ont une expérience en informatique, l'administration municipale, ou le gouvernement d'Akwesasne, a des fonctions plus larges qu'une municipalité ordinaire, car il assure des services sociaux et bon nombre d'autres services normalement assurés par les gouvernements fédéral et provincial dans d'autres municipalités.

Akwesasne a également accès au collège St. Lawrence pour les emplois spéciaux qui pourraient exiger une formation particulière. L'infrastructure nécessaire existe donc à Cornwall et dans les environs, de même qu'à Akwesasne.

M. Attewell: Je ne connais pas très bien cette région. Mais il y a des groupes indiens dans l'Ouest, par exemple, qui ont des ressources assez abondantes, gaz ou pétrole. Cette région renferme-t-elle des richesses naturelles?

M. Warner: Pas vraiment. Comme je l'ai déjà indiqué, le territoire est relativement petit. Il se compose en bonne partie d'îles, dont certaines ne sont reliées au continent que par bateau. Les richesses traditionnelles que constituent la pêche et l'agriculture ont certainement diminué au cours des siècles. Étant dépourvus d'industries, les citoyens de la région sont assez ouverts à la possibilité de voir s'établir une assise industrielle ou commerciale quelconque, qui leur assurerait des emplois. À l'heure actuelle, ils ne bénéficient d'aucune redevance pétrolière ni d'autres recettes, à part les fonds que leur versent les divers gouvernements.

M. Attewell: Je suis certain que ce groupe présente certaines caractéristiques particulières. On est amené à se demander où cela pourrait s'arrêter. Je connais bien la réserve indienne de Buckhorn Lake, il y en a beaucoup dans le pays. Que déclarez-vous à certains autres groupes qui voudraient participer à cela? Il y a eu certaines propositions que nous avons étudiées en comité: le caractère particulier de Vancouver, le facteur fuseaux horaires et l'aide dont Vancouver ou Montréal pourrait avoir besoin pour se relever de la situation causée par l'exode d'un grand nombre d'importantes institutions financières comme la Sun Life et, en fait, la plupart des grandes banques. Bien que l'institution ait pour raison sociale «Banque de Montréal» et ait peut-être son siège à Montréal, c'est en fait à Toronto que les choses se passent.

Où cela s'arrêtera-t-il, si cette motion est adoptée? Si l'on veut être juste à l'égard des autres tribus du pays, qu'est-ce que ce groupe a de si particulier pour que ce comité doive ajouter à deux grandes villes du pays ce groupe des Akwesasne?

M. Warner: Deux éléments rendent ce groupe tout à fait unique en son genre. À mon avis, les choses devraient

[Text]

would start there and stop there. This is a fairly large community, relatively large in numbers, in population, compared to other reservations, with 10,000 people on the reserve. Also, it is unique in that its borders are in Canada and in the United States. I think this particular aspect makes it especially important and certainly very unique. I would think this should be one of the main considerations we give. Certainly it would be setting a precedent and no other community could come up with the same characteristics.

Mr. Attewell: Do they have a financial institution as such now, a small trust company or a credit union?

Mr. Warner: Most of the financial services are provided from neighbouring communities. Cornwall is just across the bridge from—

Mr. Attewell: From neighbouring chartered banks, do you mean?

Mr. Warner: This is right, yes. Most of the banking is done in Cornwall or in Massena, New York, or surrounding communities. Cornwall has representatives of all the major Canadian chartered banks and they do their banking... most of the banking and financial services are provided from Cornwall.

Mr. Attewell: What size would you see this growing to over the years? I am sure you have done some studying and projections on this. Can you give us some idea?

Mr. Warner: The designation of the international banking centre by itself, as the committee realizes, is going to create very few jobs and will most likely just be transfers of jobs from other locations. Its additional financial activity that could be envisaged could be fairly substantial. Without doing an in-depth analysis and also hearing the views and response from the American side, it would be hard to say. It would certainly be greater than what would be envisaged for Montréal or Vancouver.

Mr. Attewell: Has there been some kind of long-term or strategic plan prepared you could table with the committee, in terms of their long-term goals, how they would get in it, what the tax tactics were, and what sort of structure or organization they would have?

Mr. Warner: I think we have all of it before us. The IBC is quite simple. It is a very narrow range of banking activities. It is only deposits from and loans to non-residents. So that aspect of what we are dealing with is quite straightforward; whether it is located in Akwesasne, Montreal or Vancouver, that activity is well-known.

[Translation]

s'arrêter aux Akwesasne; elles devraient partir de là et s'y arrêter. Il s'agit d'une collectivité assez importante, représentant une population assez nombreuse par rapport à celle des autres réserves, puisqu'il y a ici 10,000 personnes. Une autre caractéristique particulière est que son territoire s'étend à la fois au Canada et aux États-Unis. A mon avis, ce facteur particulier donne à ce groupe une importance toute spéciale et le met certainement tout à fait à part des autres. C'est là, à mon sens, l'un des principaux facteurs dont nous devrions tenir compte. Cela établirait certainement un précédent, et aucune autre collectivité ne pourrait se targuer d'avoir les mêmes caractéristiques.

M. Attewell: Ont-ils déjà une institution financière quelconque, une petite société de fiducie ou une caisse de crédit?

M. Warner: La plupart des services financiers sont disponibles dans les localités avoisinantes. Cornwall est juste de l'autre côté du pont à partir de...

M. Attewell: Vous voulez dire disponibles auprès des banques à charte des localités avoisinantes?

M. Warner: C'est exact, oui. La plupart des opérations bancaires se font à Cornwall ou à Massena, dans l'État de New York ou dans les localités avoisinantes. Les grandes banques à charte canadiennes sont toutes présentes à Cornwall et ils effectuent leurs opérations bancaires... la plupart des services bancaires et financiers sont disponibles à Cornwall.

M. Attewell: Quelle taille pensez-vous que cela pourrait atteindre avec le temps? Je suis certain que vous avez effectué certaines études et établi des projections à ce sujet. Pouvez-vous nous en donner quelque idée?

M. Warner: La désignation de ce centre bancaire international, comme le comité s'en rend compte, va créer très peu d'emplois, et ces derniers consisteront uniquement, selon toute probabilité, en emplois pris à d'autres endroits. L'activité financière supplémentaire susceptible d'être envisagée pourrait être assez importante. Il est difficile d'en donner une idée sans se livrer à une analyse approfondie et sans également connaître les points de vue et les réactions du côté américain. Ce serait certainement plus important que ce qui est envisagé pour Montréal ou Vancouver.

M. Attewell: A-t-on préparé une forme quelconque de plans stratégiques ou à long terme que vous pourriez déposer auprès du comité et qui indiqueraient les objectifs visés à long terme, le mode d'implantation projeté, la stratégie fiscale envisagée et la forme de structure ou d'organisation prévue?

M. Warner: Je pense que nous avons tous ces renseignements à notre disposition. Le CBI est assez simple. Il s'agit d'un éventail assez étroit d'activités bancaires. Il s'agit uniquement de recevoir des dépôts des non-résidents et de leur accorder des prêts. Par conséquent, cet aspect du problème que nous étudions est assez simple; peu importe qu'elle soit située à Akwesasne, à Montréal ou à Vancouver, cette activité est bien connue.

[Texte]

[Traduction]

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We have studied the economic impact, etc., but I suggest that perhaps tax law and the dual citizenship of this community makes it quite special. The opportunities are there to be analysed and studied. I think this designation would certainly get them off in that direction and open up the doors for exceptional opportunity. What those may be are yet to be determined, but the opportunity is very exciting for us as it is for Vancouver and Montreal.

Mr. Attewell: As we have all understood it on the committee, the original idea of these international banking centres was that everything would be incremental, so to speak. New jobs created would be incremental, deposits would be incremental, the loans would be incremental, so that the financial system as such really would not be touched at all. In that notion of incremental business, what marketing studies have been done? What particular parts of the world are you expecting to generate these deposits and have this demand for loans?

Mr. Warner: I suppose the same question can be asked—

Mr. Attewell: Taiwan... or is there any particular area that you are an expert in in the world?

Mr. Warner: I see certain opportunities that I am not going to discuss before the committee, but you can be quite assured there will be a lot of people thinking seriously about opportunities that are already in existence there. As we discuss it now, I am sure there are some people thinking about it for the first time. Really not much consideration has been given recently to the opportunities there, but I would suggest that all the opportunities that could be anticipated in other communities throughout Canada could be considered there, and perhaps many more.

Obviously we are not going to have the great banking centres that Montreal, Vancouver and Toronto presently have, nor would they ever anticipate or envisage it would grow to that extent, but we are looking at the possibility of having large banks having operations in that area, which could have a very real economic benefit to the area.

At the present time Akwesasne is looking at the possibility of certain major developments, one of which is a Four Seasons Hotel catering to businesses for conventions. They have done a feasibility study on this and are starting to proceed with some preliminary work this fall and again next spring. Certainly having a large financial institution with some activity in the area would be a plus, because they would be better aware of what projects are going on, and could well want to participate in some of the projects that are anticipated.

I am aware of other activities outside of financial services that Akwesasne is interested in, and it is going to be very helpful in their development, but it is still

Nous avons étudié les incidences économiques, entre autres choses, mais, à mon avis, peut-être le régime fiscal et la double citoyenneté de cette collectivité lui donnent-ils un caractère assez particulier. Il y a là des possibilités à analyser et à étudier. Je crois que cette désignation les orienterait certainement dans ce sens et ouvrirait des possibilités exceptionnelles. Il reste à déterminer quelle serait cette possibilité, mais elle éveille chez nous le plus vif intérêt, comme à Vancouver et à Montréal.

M. Attewell: De la manière dont tous les membres de ce comité ont compris les choses, l'idée originale de ces centres bancaires internationaux était que tous les aspects en seraient nouveaux, si l'on peut s'exprimer ainsi. Les emplois créés seraient nouveaux, les dépôts seraient nouveaux, les prêts seraient nouveaux, de sorte que le système financier à proprement parlé ne serait pas réellement touché. Dans cette perspective d'activités nouvelles, quelles études de marché ont été effectuées? Dans quelles régions particulières du monde pensez-vous obtenir ces dépôts et cette demande de prêts?

M. Warner: Je présume qu'on peut poser la même question...

M. Attewell: Taiwan... ou existe-t-il une région particulière dans le monde que vous connaissiez bien?

M. Warner: J'entrevois certaines possibilités dont je ne veux pas parler devant le comité, mais vous pouvez être assez certains qu'il y aura beaucoup de gens qui penseront sérieusement aux possibilités qui existent déjà dans ce domaine. Alors même que nous débattons de la question, je suis sûr qu'il y a certaines personnes qui y pensent pour la première fois. En fait, on n'a pas beaucoup réfléchi récemment aux possibilités dans ce domaine, mais à mon avis, toutes les possibilités qui peuvent être envisagées dans les autres villes du Canada peuvent l'être également ici, et peut-être beaucoup d'autres encore.

Nous n'allons évidemment pas avoir les grands centres bancaires que possèdent déjà Montréal, Vancouver et Toronto, et il ne serait jamais prévu ou envisagé d'atteindre une taille comparable, mais nous étudions la possibilité d'attirer de grandes banques dans cette région, ce qui pourrait y avoir des effets économiques très bénéfiques.

À l'heure actuelle, Akwesasne étudie la possibilité d'entreprendre certains grands projets, dont l'un est l'implantation d'un hôtel Quatre Saisons qui offrirait un service de congrès au milieu des affaires. Ils ont effectué une étude de faisabilité sur ce projet et entreprendront quelques travaux préliminaires cet automne, puis le printemps prochain. La venue d'une grande institution financière ayant quelques activités dans la région constituerait certainement un atout, parce qu'ils seraient plus au courant des projets en cours et pourraient fort bien vouloir participer à certains des projets prévus.

Je connais des activités autres que les services financiers auxquelles Akwesasne s'intéresse, et cela les aidera beaucoup dans leur développement, mais là

[Text]

difficult. They have unemployment that reaches a peak sometimes of 70%, so it is necessary to have a diverse base, really to establish a base, for jobs in the area.

Mr. Attewell: Mr. Chairman, I hope my colleague is not offended by some of this vigorous line of questioning, because I think it is important that we understand it. Nor am I in any way casting any aspersions or any slight against the fine people of Akwesasne, but it hit me by surprise. I read about it in *The Toronto Star* and I think you mentioned it just perhaps—

Mr. McCrossan: The first time *The Toronto Star* has been reliable in the last little while I think.

Mr. Attewell: I would just like to pursue this, because in all honesty we have spent months and months, and indeed prepared a report we spent weeks on. We visited New York, expensive extensive research, and then out of the blue we are now listening to logic to add a third group. I assume that the hon. member does not object to some of this questioning so we can better understand.

I do not want to dominate the questioning, but I did have a couple more. Could you tell with us what strength there is in the tourism industry, people visiting there?

• 1630

Mr. Warner: There are outstanding opportunities. It is a very attractive community on the river and tourism plays a role. The North American Indian Travelling College has its base on Cornwall Island and is quite a tourist attraction which thousands of people visit each year. Not only do they have a replica of an Indian village there, but they also have a lot of artifacts and presentations. They are active in taking their presentations across North America, Canada and the United States, and are well received all over.

Chief Mike Mitchell was quite instrumental in establishing the North American Indian Travelling College. This is an asset not only for Akwesasne, but also for the entire community. It provides a very interesting attraction. The river through Akwesasne is also very beautiful and across from Cornwall and to the east is quite a major attraction for boaters. I am sure you would enjoy visiting it, sir.

Mr. Attewell: Could we come back to one of my original questions? What do we say to similar groups? I know you believe this is unique, but—

Mr. Warner: I do not think there is a similar group.

[Translation]

situation demeure difficile. Akwesasne souffre d'un chômage qui parfois atteint 70 p. 100, de sorte qu'il faut avoir une économie diversifiée, établir vraiment une assise économique, pour créer des emplois dans la région.

M. Attewell: Monsieur le président, j'espère que mon collègue ne s'offusque pas de certaines des questions très directes que nous lui posons, car il est important, à mon avis, que nous comprenions ce qui se passe. Loin de moi, aussi, l'idée de calomnier les bonnes gens d'Akwesasne ou d'en faire peu de cas, mais j'ai été pris au dépourvu. J'ai lu un article à ce sujet dans le *Toronto Star* et je crois que vous l'avez seulement mentionné, peut-être. . .

M. McCrossan: C'est la première fois que le *Toronto Star* a écrit quelque chose de fiable depuis quelque temps, je crois.

M. Attewell: J'aimerais poursuivre à ce sujet parce que, en toute franchise, nous y avons consacré des mois et des mois et, en fait, nous avons rédigé un rapport qui nous a pris des semaines. Nous nous sommes rendus à New York, avons fait faire des recherches approfondies et coûteuses et voilà qu'on nous arrive à l'improviste avec une proposition d'ajouter un troisième groupe. Je présume que le député ne voit pas d'objection à ce que nous posions certaines de ces questions, pour nous permettre de mieux comprendre la situation.

Je ne voudrais pas accaparer les débats, mais j'avais encore quelques questions. Pourriez-vous nous dire quelle est la vigueur du tourisme dans la région, le nombre de touristes?

M. Warner: Il existe d'excellentes possibilités. Il s'agit d'une localité d'un endroit très attirant, située sur la rivière, et le tourisme y joue un rôle. Le North American Indian Travelling College, qui a son centre sur l'île Cornwall, attire pas mal de touristes, des milliers de personnes chaque année. Ils offrent non seulement la reproduction d'un village indien, mais aussi beaucoup d'objets fabriqués et de présentations. Ils font des tournées dans toute l'Amérique du Nord, au Canada et aux États-Unis, pour faire leurs présentations et sont partout bien reçus.

Le chef Mike Mitchell a joué un assez grand rôle dans la création du North American Indian Travelling College. Ce dernier est un atout non seulement pour Akwesasne, mais pour toute la collectivité. C'est un point d'intérêt non négligeable. La rivière qui traverse Akwesasne est très belle aussi, et de par sa situation vis-à-vis de Cornwall et par rapport à l'est, elle attire beaucoup de plaisanciers. Je suis sûr que vous aimeriez visiter cet endroit, monsieur.

M. Attewell: Pourrions-nous revenir à l'une de mes premières questions? Que devons-nous dire à des groupes du même genre? Je sais qu'à votre avis il s'agit là d'un cas unique en son genre, mais. . .

M. Warner: Je ne crois pas qu'il existe un groupe du même genre.

[Texte]

Mr. Attewell: What do you say to other groups in British Columbia, Alberta or Ontario, all across this country of ours. In all honesty, why would this one group enjoy special status?

Mr. Warner: The Montreal Board of Trade and the Chamber of Commerce mentioned that designating just a few centres is fairly important to maximize what they called the agglomeration effects. I have to agree. I think this is a special designation which should not be made available for hundreds of communities.

Mr. Attewell: In all honesty, could you go to an Indian group in Alberta and defend what you are proposing here?

Mr. Warner: Yes, because they are not located in Canada and the United States—

Mr. Attewell: What special advantage does that give the group other than the land?

Mr. Warner: There is a hotel not too far from Akwesasne, in Dundee, where it is possible to buy your beer at the bar in Quebec and drink it at a table in New York State without leaving the hotel. I would imagine some activities could occur in—

Mr. Attewell: This is an intriguing proposal.

The Chairman: It is an important question.

Mrs. Collins: I am very impressed with the eloquence and sincerity with which Mr. Warner is—

The Chairman: It sounds like you selling Vancouver, does it not?

Mrs. Collins: That is correct. He is arguing the case on behalf of his constituents and I know how much they must appreciate that. I have really enjoyed the travelogue and getting a better understanding of this unique area of our country.

I have some concerns to express to Mr. Warner. Most importantly, I am really pleased that Mr. Warner, my Ontario colleague, has embraced and is supporting the international banking centre for Vancouver and Montreal and is looking for the possibility of an addition in his own constituency.

Having worked with Indian reserves, including those in my own riding, I see some problems given their special status in terms of the fiduciary responsibility of the federal government and the tax status. My own feeling is that we should probably walk before we run in the introduction of international banking centres, and that establishing one in such a different kind of area would create a lot of other potential things which have not been anticipated in the proposals put forward from Montreal and Vancouver.

In discussing the international banking centre with the international banking committee in Vancouver, they have

[Traduction]

M. Attewell: Que devrions-nous répondre à d'autres groupes de la Colombie-Britannique, de l'Alberta ou de l'Ontario, de tout ce pays qui est le nôtre? Bien honnêtement, pourquoi ce groupe-là devrait-il bénéficier d'un régime particulier?

M. Warner: Le Board of Trade et la Chambre de commerce de Montréal ont signalé que la désignation d'un petit nombre de centres était assez importante afin d'exploiter au maximum ce qu'ils ont appelé l'effet d'agglomération. Je dois en convenir. Je crois qu'il s'agit là d'une désignation spéciale qui ne devrait pas être offerte à des centaines de collectivités.

M. Attewell: En toute franchise, pourriez-vous aller défendre ce que vous proposez ici devant un groupe indien de l'Alberta?

M. Warner: Oui, parce qu'il n'est pas situé au Canada et aux États-Unis. . .

M. Attewell: Quel avantage particulier cela confère-t-il au groupe, à part le territoire?

M. Warner: Il y a un hôtel pas tellement loin d'Akwesasne, à Dundee, où vous pouvez acheter votre bière au bar au Québec et la boire à une table qui est située dans l'État de New York, tout cela sans quitter l'hôtel. J'imagine que certaines activités pourraient être entreprises dans. . .

M. Attewell: Voilà une proposition curieuse.

Le président: C'est une question importante.

Mme Collins: Je suis très impressionnée par l'éloquence et la sincérité avec lesquelles M. Warner. . .

Le président: On dirait bien que vous défendez Vancouver, n'est-ce pas?

Mme Collins: C'est exact. Il fait valoir le dossier de ses commettants, et je sais combien ils doivent lui en savoir gré. J'ai vraiment apprécié la conférence et je suis heureuse de mieux connaître cette région bien particulière de notre pays.

Je voudrais faire part à M. Warner de certaines préoccupations. En tout premier lieu, je suis vraiment heureuse que M. Warner, mon collègue de l'Ontario, soit en faveur d'un centre bancaire international à Vancouver et à Montréal, et qu'il envisage la possibilité d'en ajouter un dans sa propre circonscription.

Ayant déjà travaillé avec des réserves indiennes, notamment celles de ma propre circonscription, j'entrevois quelques problèmes, en raison de leur statut particulier, dû à la responsabilité fiduciaire du gouvernement fédéral et au régime fiscal. Mon sentiment personnel est que nous ne devrions sans doute pas aller trop vite dans l'établissement de centres bancaires internationaux et que la création d'un centre dans un contexte aussi différent créerait toutes sortes d'autres effets possibles que nous n'avons pas prévus dans les propositions présentées par Montréal et Vancouver.

L'étude du centre bancaire international avec le comité des opérations bancaires internationales à Vancouver a

[Text]

been doing quite a lot of work on it. They are finding there is a great deal of interest from the Schedule B financial institutions, but they would not anticipate that it would be new physical buildings. Institutions which already exist in Vancouver will add this function. Therefore I do not see that in an area such as Akwesasne, which does not have that kind of infrastructure, you could really expect this to develop.

• 1635

As Mr. Attewell said, I also feel we are looking at incremental business. It might be more appropriate for a place such as Akwesasne to again establish financial institutions of some kind within its boundaries and then over the next few years work towards the possibility of being established as an international banking centre.

We should just limit it to what we have already explored and to where we know there is the interest in and the capability of developing international banking centres. Since Akwesasne is partly in New York State and since New York State has the capability of establishing international banking centres, perhaps they could establish one on the U.S. side of the reserve. Then we would have an opportunity to assess how that might develop over the coming year.

Mr. Warner: I appreciate your comments. You mentioned we should be walking before we run. I assure you the international banking centre, as proposed by Bill C-64, is certainly walking. The scope of operations set out are very restricted and certainly cannot be misunderstood by anyone, or present a problem being administered in Akwesasne or any other community. It does not require a lot of infrastructure that is not already available in Toronto or in centres that are going to be soliciting and managing most of these loans.

My enthusiasm for international banking centres in Montreal and Vancouver, as proposed by Bill C-64, is somewhat limited for various reasons. I do see some very substantial benefits for Akwesasne's being considered, not only for this particular banking activity but perhaps for other financial activities as well.

Mr. Cassidy: Mr. Chairman, I am fascinated by what I am hearing. I seem to hear Mr. Warner making a case for his constituents in Akwesasne, and indicating that if the Vancouver and Montreal representatives, who have suddenly found their way into the committee would include Akwesasne, then he will be happy to support their case for IBCs in Vancouver and Montreal.

I wonder if Mr. Warner can clarify whether that is his position.

[Translation]

permis d'accomplir pas mal de travail dans ce dossier. Ils constatent que les institutions financières de l'Annexe B sont très intéressées, mais ils ne prévoient pas la construction de nouveaux immeubles. Les institutions déjà en place à Vancouver ajouteront cette fonction. Je ne crois donc pas que, dans une région comme Akwesasne, qui ne possède pas ce genre d'infrastructure, vous pourriez vraiment prévoir une évolution de ce genre.

Comme l'a déclaré M. Attewell, je pense aussi que nous envisageons des activités supplémentaires. Peut-être conviendrait-il mieux, dans un endroit comme Akwesasne, d'établir des institutions financières d'une nature quelconque sur le territoire, puis, les années suivantes, de travailler à la création d'un centre bancaire international.

Nous devrions nous limiter à ce que nous avons déjà étudié ainsi qu'aux endroits où nous savons qu'il existe un intérêt une capacité pour l'établissement de centres bancaires internationaux. Étant donné qu'Akwesasne est située en partie dans l'État de New York et que celui-ci est en mesure d'établir des centres bancaires internationaux, peut-être pourrait-il en instituer un dans la partie américaine de la réserve. Nous serions alors en mesure de voir comment les choses pourraient évoluer au cours des douze prochains mois.

M. Warner: Je vous remercie de vos commentaires. Vous avez déclaré que nous ne devrions pas aller trop vite. Je puis vous assurer que le projet de centre bancaire international proposé dans le projet de loi C-64 ne va certainement pas trop vite. L'ampleur des activités prévues est très limitée et ne saurait assurément être mal comprise par quiconque, ni présenter un problème de mise en oeuvre à Akwesasne ou dans n'importe quelle autre localité. Elle n'exige pas une infrastructure importante qui ne serait pas déjà disponible à Toronto ou dans les centres qui solliciteront et administreront la plupart de ces prêts.

L'enthousiasme que je ressens pour l'établissement de centres bancaires internationaux à Montréal et à Vancouver, comme le propose le projet de loi C-64, est quelque peu limité pour diverses raisons. Il existe à mon sens des avantages extrêmement importants à ce qu'on étudie le cas d'Akwesasne, non seulement pour cette activité bancaire particulière mais aussi, peut-être, pour d'autres activités financières.

M. Cassidy: Monsieur le président, je suis fasciné par ce débat. Il me semble que M. Warner défend la cause de ses commettants à Akwesasne et indique que, si les représentants de Vancouver et de Montréal, qui se sont tout d'un coup retrouvés au Comité, incluaient Akwesasne, il serait heureux de les appuyer dans les efforts qu'ils font pour obtenir un CBI à Vancouver et à Montréal.

Je me demande si M. Warner pourrait préciser s'il s'agit bien là de sa position.

[Texte]

Mr. Warner: You will have to wait until we vote on this, Mr. Cassidy.

Some hon. members: Oh, oh.

Mr. Cassidy: Having reservations about IBCs as a whole, I regret to have to say to Mr. Warner that I would find it difficult to support his amendment. Native peoples from Akwesasne, or any other reserve, should be warned that when the committee looked into IBCs we found—and Mr. Warner was part of that committee and I believe he was with us in New York—the job-creation factor on international banking centres is negligible. I recall the Finance department coming to the committee and finding no more than 11 jobs coming from international banking centres in Montreal and Vancouver. I would assume that Akwesasne would have a certain handicap and therefore could not expect anywhere even close to that. Even a community of 10,000 is not a lot of people, particularly if you think of what could be done in economic development on that reserve, and what could be the potential of lost revenues from the banking centre concept which we understand from our friends in New York State could also be a substantial revenue drain.

I would warn Mr. Warner of the following to the point where I think he should seriously consider withdrawing his proposed amendment.

Akwesasne is an Indian reserve on the Canada-U.S. border. The Indians tend not to vote considering they have something of a special status. As far as the Government of Canada or the Government of the United States is concerned, those portions of the reserve that lie either within Canada or the United States are treated like any other Indian reserve within their respective countries. We are dealing with the Canadian portion of the Akwesasne Reserve which happens to be on the border but otherwise has exactly the same tax privileges as any other Indian reserve in Canada, namely that the income earned on the reserve is not taxed, and I believe there is no federal sales tax on goods sold on the reserve.

• 1640

What about Kahnawake? What about the Brant Reserve? What about the reserve which is in Mrs. Collins' riding just at the foot of the Lions Gate Bridge? What about reserves in northern Ontario represented by my friend, John Parry? If I were concerned about economic development, what about the Crees who have a lot of financial resources because of the financial settlement over the James Bay hydro plants and are desperately looking for ways by which they can use those resources? Similarly, some of the bands in western Canada that have

[Traduction]

M. Warner: Vous devrez attendre que nous votions sur cette question, monsieur Cassidy.

Des voix: Oh, oh.

M. Cassidy: Ayant des réserves au sujet de tout le dossier des CBI, je regrette d'avoir à informer M. Warner que j'aurais du mal à appuyer son amendement. Les autochtones d'Akwesasne ou de toute autre réserve devraient bien savoir que, lorsque le Comité a étudié les CBI, il a constaté—et M. Warner faisait partie du comité, je crois, et il était avec nous à New York—que le facteur création d'emplois, dans les centres bancaires internationaux, était négligeable. Je me rappelle la déposition du ministère des Finances devant ce comité, d'où il ressortait que des centres bancaires internationaux à Montréal et à Vancouver ne créeraient pas plus de onze emplois. Je suppose qu'Akwesasne, souffrant d'un certain handicap, ne pourrait pas s'attendre à un chiffre qui soit seulement comparable à celui-ci. Même une collectivité de 10,000 personnes ne représente pas une population importante, en particulier si vous pensez aux activités de développement économique qui pourraient être entreprises dans cette réserve, ainsi qu'au manque à gagner que pourrait entraîner le concept de centre bancaire et qui, à ce que nous ont laissé entendre nos amis de l'État de New York, pourrait aussi réduire sensiblement les recettes.

Les éléments que je vais exposer constituent une mise en garde que j'adresse à M. Warner et qui devrait, à mon avis, l'inciter à envisager sérieusement de retirer son projet d'amendement.

Akwesasne est une réserve indienne située sur la frontière canado-américaine. Les Indiens ne votent généralement pas car ils considèrent qu'ils ont un statut particulier. Du point de vue du gouvernement du Canada ou du gouvernement des États-Unis, les parties de la réserve soit au Canada, soit aux États-Unis, sont soumises au même régime que n'importe quel autre réserve indienne située dans chacun de ces pays. Nous parlons ici de la partie canadienne de la réserve d'Akwesasne, qui se trouve à chevaucher la frontière, mais qui, à tous autres égards, bénéficie exactement des mêmes privilèges fiscaux que n'importe quelle autre réserve indienne au Canada, à savoir que le revenu gagné dans la réserve n'est pas imposé et que les biens vendus dans la réserve, je crois, ne sont pas assujettis à la taxe fédérale de vente.

Qu'en est-il de Kahnawake? Qu'en est-il de la réserve de Brant? Qu'en est-il de la réserve située dans la circonscription de M^{me} Collins, au pied même du pont Lions Gate? Qu'en est-il des réserves du nord de l'Ontario, représentées par mon ami, John Parry? Si je devais me soucier de développement économique, qu'en est-il des Cris, qui disposent d'importantes ressources financières grâce à l'entente intervenue au sujet des usines hydro-électriques de la Baie James et qui cherchent désespérément un moyen d'utiliser ces ressources? De

[Text]

had resource revenues coming from natural gas, oil, or other explorations on their properties. . .

In principle there is really no difference. If you single out one reserve, you promptly offend large numbers of other Indian bands that have every right to say to the government they do not think the government acted fairly or equitably. If this is really of value, it should have been applied to all Indian communities or you should have put forward equivalent types of measures for other Indian reserves if there is simply no case for having 200 or 300 IBCs in different Indian reserves across the country.

It is the kind of case where you do something for one particular reserve, and in the process you may make a few friends politically for one Conservative Member of Parliament. At the same time many of the Conservative members might question this particular measure because native peoples living in their constituencies might ask why Parliament was prepared to act for the Indians in the Akwesasne Reserve but not for the Indians in their area. Look at our unemployment rate, our problems of economic development; we should have had something like this as well.

Mr. Warner: We have regional development incentive and employment programs from all sorts of departments that deal with this problem. I have to point out that the citizens of this community are not the same as the citizens in other Indian reserves in Canada. They have the ability to earn tax-free income in both Canada and the United States. It is much different from any other Indian Reserve in Canada.

As for gaining political friends, you already pointed out that they do not vote because of their special status. They prefer not to vote. So there is not going to be any great rally at the polls because I have introduced this plan. It should be quite apparent to Mr. Hudon that we are not expecting votes from Akwesasne. We hope it does benefit the community. We do share in that. The fact they are in much different situations from other bands does warrant the special consideration because it does facilitate doing something about a problem we presently have. Right now most of Canada's international banking is done with Americans, and right now we have a problem with the withholding tax that possibly can be resolved elsewhere.

Like other large bands, this community does look forward to self-government, and I am sure the hon. member should be aware of that. It is not a new concept. It has been discussed a lot in various committees here in Ottawa, and is understood by his party as well. Being a

[Translation]

même, certaines bandes de l'Ouest canadien, qui tirent des revenus de l'exploitation des ressources naturelles comme le gaz naturel et le pétrole, ou de travaux d'exploration effectués sur leurs terres. . .

En principe, il n'existe aucune différence véritable. Si vous mettez une réserve à part, vous provoquez immédiatement la colère d'un grand nombre d'autres bandes indiennes, qui ont le droit strict de déclarer au gouvernement qu'à leur avis il n'a pas agi de manière juste et équitable. Si la proposition est vraiment valable, elle aurait dû être appliquée à toutes les collectivités indiennes, ou vous auriez dû proposer des mesures de nature équivalente pour les autres réserves indiennes, s'il n'est tout simplement pas justifié d'avoir 200 ou 300 CBI dans les différentes réserves indiennes du pays.

C'est la situation où vous faites quelque chose pour une réserve particulière et, du même coup, gagnez peut-être quelques amis, sur le plan politique, à un député conservateur. Simultanément, bien des députés conservateurs pourraient remettre en cause cette mesure parce que les autochtones qui vivent dans leur circonscription, risquent de demander pourquoi le Parlement a été disposé à agir en faveur des Indiens de la réserve Akwesasne, mais non pour ceux de leur région. Voyez donc notre taux de chômage, nos problèmes de développement économique; nous aussi, nous aurions dû obtenir quelque chose de ce genre.

M. Warner: Toutes sortes de ministères qui s'occupent de ce problème offrent des programmes d'emploi et d'encouragement au développement régional. Je dois souligner que les citoyens de cette collectivité sont différents de ceux des autres réserves indiennes du Canada. Ils ont la possibilité de gagner un revenu en franchise d'impôt à la fois au Canada et aux États-Unis. Cela les différencie beaucoup de toutes les autres réserves indiennes du Canada.

Pour ce qui est de se faire des amis politiques, vous avez déjà souligné que les Indiens ne votaient pas en raison de leur statut particulier. Ils préfèrent ne pas voter. Par conséquent, le fait que j'ai proposé ce projet n'aura pas de grandes retombées électorales. Il devrait être assez évident pour M. Hudon que nous ne nous attendons pas à obtenir des votes à Akwesasne. Nous espérons que cela bénéficiera à la collectivité. Nous partageons cet objectif. Le fait que cette collectivité soit dans une situation bien différente de celle des autres bandes mérite bel et bien une considération particulière, parce que cela facilite la solution d'un problème qui est le nôtre à l'heure actuelle. En ce moment, la plupart des opérations bancaires internationales au Canada se font avec des Américains et, en ce moment, nous sommes aux prises avec le problème de la retenue fiscale, qui peut peut-être être résolu ailleurs.

Comme les autres bandes importantes, cette collectivité espère accéder à un gouvernement autonome, et je suis certain que le député le sait. Il ne s'agit pas d'une idée nouvelle. Elle a fait l'objet de nombreux débats dans divers comités, à Ottawa, et elle est fort bien connue de

[Texte]

fairly large group of Indians, they would also like the opportunity for self-government, envisaged to include the whole of the community, the part in Ontario, in Quebec, and in New York State. This has been a very difficult problem for these people for a long time. Perhaps something like this could be a catalyst that would go a long way in assisting them in obtaining self-government,

• 1645

Miss Nicholson: I found Mr. Warner's proposal very interesting indeed. This committee certainly studied IBCs very extensively. As Mr. Warner pointed out, we went to New York. None of the evidence we saw anywhere would lead one to think that the establishment of an IBC would bring new business or would create economic activity anywhere.

Nevertheless, the faith on the part of certain Conservative members, the sort of mystical faith even, that establishing an IBC will be good for unemployment, for economic development, or for whatever ails you is, of course, very touching. I wonder if Mr. Warner could tell us whether he has been able to check out this faith in any substantial way. Has the Minister of Finance, for instance, suggested that with an IBC on the reserve it might help them discover the fountain of youth?

Mr. Warner: I agree. As you have mentioned, we do not anticipate that the designation of an IBC in any community is going to do much in the way of job creation. However, I would think some of the opportunities that currently exist could be restructured by the various political or governmental bodies involved and perhaps restructured in such a way that controls could be put on what may be loopholes, or considered loopholes at the present time.

I do think that with the two governments working together, there could well be something very special here and something that could be monitored and controlled. Such financial activity would be unique in North America. As you know, a lot of the booking of the loans and deposits that are being considered now for transfer to one of the Canadian centres actually occurs in tax havens like the Cayman Islands at the present time. Perhaps the special designation may have a special connotation as well. Perhaps people will look for something a little bit more than what is offered by this legislation. Perhaps in Akwesasne by looking a little bit further, you may find that something already exists.

Mr. Layton: Mr. Chairman, I would like to add to this particular phase of the debate a correction. I think the

[Traduction]

son parti aussi. Comme la réserve représente un groupe d'Indiens assez important, elle aimerait aussi avoir la possibilité de se gouverner elle-même, ce qui vaudrait pour l'ensemble de la collectivité, la partie ontarienne, celle qui est située au Québec et celle de l'État de New York. Cela représente depuis longtemps un problème très difficile pour ces gens. Peut-être qu'un projet de ce genre pourrait jouer un rôle de catalyseur, qui les aiderait considérablement à accéder à un gouvernement autonome.

Mme Nicholson: J'ai trouvé la proposition de M. Warner très intéressante en vérité. Le Comité a certainement étudié à fond les CBI. Comme l'a souligné M. Warner, nous nous sommes rendus à New York. Rien, dans ce que nous avons observé partout, ne permet de croire que l'établissement d'un CBI accroîtrait le volume des affaires ou créerait de l'activité économique où que ce soit.

Néanmoins, la foi que manifestent certains députés conservateurs, on pourrait même dire une sorte de foi mystique, selon laquelle l'établissement d'un CBI sera bon pour le chômage, pour le développement économique ou pour ce qui peut vous déranger, est évidemment très touchante. Je me demande si M. Warner pourrait nous dire s'il a pu vérifier de façon concrète si cette foi est fondée. Le ministre des Finances, par exemple, a-t-il laissé entendre qu'un CBI dans la réserve pourrait aider à découvrir la fontaine de jouvence?

M. Warner: Je suis d'accord. Comme vous l'avez déclaré, nous ne nous attendons pas à ce que l'établissement d'un CBI dans une localité quelconque ait beaucoup d'effet sur la création d'emplois. Je considère cependant que certaines possibilités qui existent à l'heure actuelle pourraient être reprises par les diverses instances politiques ou gouvernementales en cause et, peut-être, réaménagées de façon à permettre d'imposer des dispositifs de contrôle à ce qui peut constituer des échappatoires ou être considéré comme des échappatoires à l'heure actuelle.

Je suis persuadé que, moyennant la collaboration des deux gouvernements, nous pourrions avoir ici quelque chose de très particulier, que l'on pourrait surveiller et contrôler. Une activité financière de cette nature serait unique en son genre en Amérique du Nord. Comme vous le savez, l'activité de prêt et de dépôt dont on envisage actuellement le transfert à l'un des centres canadiens se déroule en bonne partie, en fait, dans des paradis fiscaux comme les Îles Cayman à l'heure actuelle. Peut-être une désignation spéciale a aussi une connotation particulière. Peut-être que les gens chercheront à aller un peu plus loin que ce que permet ce projet de loi. Peut-être qu'à Akwesasne, en cherchant un peu plus loin, vous trouverez qu'il existe déjà quelque chose.

M. Layton: Monsieur le président, j'aimerais apporter une correction à cette phase particulière du débat. On a

[Text]

impression has been given that we are dealing with something that is very inconsequential.

I attended this morning the meeting of the government with the community of Montreal and the press responding to the initiative taken by the government. The particular report was called the Picard report on the future development of Montreal. After studying with numerous leaders from the community, the Picard report concluded that there were six or seven ways in which Montreal could regain some of its momentum in the economic future of Canada. Amongst them was certainly for Montreal to recognize its international characteristic.

The support of our government and, I would hope, of all parties for the redevelopment of Montreal as a force in Canada is very real. It is very important. It was this community that first advanced and was later joined by and endorsed by the community out in Vancouver, I think with very good reason, because of their links to the quickly growing Pacific Rim, that this was something that would be good for Canada, good for Montreal and good for Vancouver.

• 1650

To suggest, and these numbers come floating in, that there may be 11 jobs, or 17 jobs, or whatever—there were some banks in New York City that we visited, and when we visited as a committee we were welcomed by the executives and officers of international banks doing this kind of business in very substantial premises, part of which was devoted international banking. . .

It is true that the limits that would be put on international banking operations have been mentioned by Mr. Warner. Limiting loans and deposits to non-resident clients is a restriction, but that is accepted. We just sense that Canada can become, through these international banking centers, a very responsible and competitive alternative for international investors.

I want to make it clear, and put it on the record with the committee, that it is a very serious concern in Montreal, and I sense the same from other parts of Canada, particularly Vancouver, that this particular legislation goes through as has been proposed, and it would be my hope that it would.

I would hope also, because of the very responsible presentation by our colleague, Mr. Warner, today looking for assistance in the development of activity and opportunity in that corner of his riding, that some special effort will be taken to address it, even if only to make it a tourist attraction, Norm—because you have made it sound very attractive, and it is only a short distance from where I live, so I will be coming to look.

[Translation]

donné l'impression, je crois, que nous nous occupons d'une question qui a très peu d'importance.

J'ai assisté ce matin à une réunion que notre gouvernement tenait avec les milieux de Montréal et la presse, répondant à l'initiative prise par le gouvernement. Un rapport appelé rapport Picard a été consacré au développement futur de Montréal. Après des études menées de concert avec de nombreux dirigeants du milieu, le rapport Picard a conclu qu'il existait six ou sept façons qui permettraient à Montréal de recouvrer en partie son rôle dans l'avenir économique du Canada. Parmi ces moyens figurait certainement la reconnaissance de la dimension internationale de Montréal.

L'appui de notre gouvernement et, j'espère, de tous les partis, en faveur de l'émergence de Montréal comme force dans le Canada est bien réel. C'est une question très importante. C'est cette ville qui a fait les premiers pas, pour être ensuite rejointe et appuyée par les milieux de Vancouver, à très juste titre selon moi, en raison des liens que cette dernière ville entretient avec la ceinture du Pacifique en croissance rapide; ils considéraient que ce serait là un bon projet pour le Canada, pour Montréal et pour Vancouver.

Dire—et ces chiffres, qui nous parviennent, manquent de précision—qu'il pourrait y avoir 11 emplois, 17 emplois ou quelque autre chiffre. . . Nous avons visité certaines banques à New York et avons été accueillis, à titre de comité, par les dirigeants et les cadres de banques internationales qui se livrent à ce genre d'activité dans des locaux assez importants, dont une partie est consacrée aux opérations bancaires internationales.

Il est vrai que les limites qui seraient imposées aux opérations bancaires internationales ont été mentionnées par M. Warner. La limitation des prêts et des dépôts à la clientèle étrangère constitue une restriction, mais cela est admis. Nous avons seulement le sentiment que, grâce à ces centres bancaires internationaux, le Canada peut devenir une solution de rechange très raisonnable et concurrentielle pour les investisseurs internationaux.

Je tiens à bien préciser, et à faire savoir au Comité, qu'il s'agit là d'une préoccupation très sérieuse à Montréal, et je sens les mêmes réactions dans d'autres régions du Canada, en particulier à Vancouver, pour qui ce projet de loi particulier devrait être adopté dans la forme où il a été proposé, ce que j'espère.

J'espère également, en raison de l'exposé très sensé présenté par notre collègue, M. Warner, qui cherche aujourd'hui à ce qu'on favorise le développement des activités et des possibilités dans ce coin de sa circonscription, qu'un effort particulier sera consenti pour répondre à ses préoccupations, même si l'on se borne à en faire une attraction touristique, Norm—parce que vous en avez fait une description très intéressante et que, comme je n'habite pas loin, je viendrai y faire un tour.

[Texte]

Mr. Minaker: First tourist?

Mr. Layton: I want to bring it back to the sense that there is a considerable degree of consequence in this legislation for the two communities that have asked for this legislation, this promotion, and I think they both take it very seriously. I know that I came for a meeting only this morning devoted to this and other subjects of trying to put Montreal back into this mainstream in Canada.

Mr. Cassidy: I was not quite sure if what I heard from Mr. Layton, since we are dealing with the amendment put forward by Mr. Warner, whether Mr. Layton has a position on that amendment. Do you support it?

Mr. Layton: No. I would feel that the two communities that have asked for this special consideration... it has been very clear. We have looked at it, and what this committee found in its report would address itself to those concerns.

Mr. Cassidy: If I may be blunt, if it was a condition of Mr. Warner's vote for Montreal and Vancouver that Akwesasne, the reserve, was included, would you support it then?

Mr. Layton: There is no such consideration.

Mr. Belsher: I would just like to pick up on what the member from Montreal has been saying, in that this is something that has been studied for some considerable months, and was also in the last budget speech that the Finance Minister brought forward. I can assure Mr. Warner that while I find his proposition to us very, very intriguing, nevertheless if I was to support this, I would have severe criticism from areas within British Columbia that could have put forward just as compelling an argument why they should be considered as well, and I can think of some that would be even in Fraser Valley East, and yet that is not what we are here for.

We are here to deal with the proposition of two cities in our country—that was the thrust of the legislation that is before us. It was not a case of adding another community to it, or a third or a fourth community to it at this time, and so I would have to vote against it, but yet hope that it would not precipitate the main thrust of this going through.

Mr. Cassidy: Has Mr. Warner contemplated the possibility, given Mrs. Collins' suggestions that we should walk before we run, and I am sure that he may agree, that perhaps the reserve in his area should be considered for at least a status prior to Montreal and Vancouver?

Mr. Warner: Well, I think I answered that by saying this legislation really is...

The Chairman: Particularly since it has an international concept—it issues its own passports, and so on. It could do some international banking perhaps without this law. I suspect it could open up banks and take deposits of Canadians, and lend them out in New York State, and not worry about withholding taxes and all

[Traduction]

M. Minaker: Le premier touriste?

M. Layton: Je voudrais qu'on comprenne que ce projet de loi est lourd de conséquences pour les deux villes qui ont réclamé ce texte législatif, cette promotion, et je crois que les deux villes prennent la chose très au sérieux. Je sais que je suis venu assister à une réunion, juste ce matin, qui était consacrée à cette question et à d'autres moyens d'essayer de ramener Montréal au coeur de la vie économique au Canada.

M. Cassidy: Je ne sais pas trop si ce que vient de dire M. Layton, étant donné que nous étudions l'amendement proposé par M. Warner, exprime le point de vue de M. Layton à ce sujet. Appuyez-vous l'amendement?

M. Layton: Non. J'estime que les deux villes qui ont demandé ce traitement particulier... Le dossier était très clair. Nous l'avons étudié, et les conclusions exprimées par le Comité dans son rapport visent à répondre à ces préoccupations.

M. Cassidy: Si je peux me permettre d'être brutal, si M. Warner faisait dépendre son vote en faveur de Montréal et de Vancouver de l'inclusion de la réserve d'Akwesasne, appuieriez-vous son amendement?

M. Layton: Il n'en est pas question.

M. Belsher: J'aimerais seulement reprendre ce qu'a déclaré le député de Montréal, à savoir qu'il s'agit d'une question que l'on étudie depuis plusieurs mois et qui figurait aussi dans le dernier discours du budget prononcé par le ministre des Finances. Je puis assurer à M. Warner que, même si je trouve sa proposition très, très intrigante, même si je devais l'appuyer, je ferais l'objet de vives critiques dans des régions de la Colombie-Britannique qui auraient pu présenter un dossier tout aussi convaincant pour que leur cas soit également étudié; je pense même à certaines régions qui se trouvent dans la circonscription de Fraser Valley East, et pourtant nous ne sommes pas ici pour en discuter.

Nous sommes ici pour étudier la proposition de deux villes canadiennes—voilà le grand thème qui inspire le projet de loi dont nous sommes saisis. Il n'était alors pas question d'y ajouter une autre localité, voire une troisième ou une quatrième, de sorte que je devrais voter contre l'amendement, tout en espérant que cela ne précipiterait pas l'adoption des principales dispositions.

M. Cassidy: M. Warner a-t-il envisagé la possibilité, étant donné l'opinion de M^{me} Collins, que procédions par étapes. Je suis sûr qu'il peut être d'accord, que peut-être la réserve située dans sa région devrait passer au moins avant Montréal et Vancouver?

M. Warner: Eh bien, je crois y avoir répondu en déclarant qu'en réalité ce projet de loi est...

Le président: En particulier du fait qu'elle a une dimension internationale—elle délivre ses propres passeports, etc. Elle pourrait effectuer certaines opérations bancaires internationales, peut-être sans cette loi. J'ai l'impression qu'elle pourrait ouvrir des banques, recevoir des dépôts de clients canadiens et les prêter dans l'État de

[Text]

of those nasty things, and interfere with the banking operations.

• 1655

Mr. Cassidy: I adjust a bit the point I made earlier, which is if you apply this to one reserve, you should consider applying it to all. The status of other reserves is not that different. I have to say that if I were the leader of a native organization, I would be hardpressed to see how one particular group of native people should get that kind of precedence.

Mr. McCrossan: I have some questions for the officials on this amendment and they have to do with the tax aspects of the reserve. The Chairman raised the point I was going to raise, as to whether international banking could be done on the reserve on a tax-free basis by any corporation or bank incorporated on the reserve. We have already heard testimony that payroll taxes are not subject to Government of Canada income tax. Is that correct?

Mr. Farber: Yes, that is correct to the extent that the receipt of the salary is with respect to a business that is operating on the reserve.

Mr. McCrossan: Is it true then that a business on the reserve pays no corporate income tax, if it is a small incorporated business?

Mr. Farber: No, that is not true. It would pay tax like any other corporation.

Mr. McCrossan: Even with respect to the business done on the reserve?

Mr. Farber: That is right. If it is a corporation, it would be incorporated either under the laws of the province or under the Canada Corporations Act. The corporation would be subject to tax in the normal course. However, the salaries that would be paid to the employees and/or the shareholders of such an Indian corporation on the reserve would be exempt in the normal fashion.

Mr. Attewell: Suppose they wanted to work it for a break-even situation. Let us say you had a couple of major shareholders and they took large salaries. Then there are ways you would not pay a cent of tax, even though it is a corporation, right?

Mr. Farber: I am not here to counsel anybody as to how to get around the corporate taxation rules. I will say that if salaries paid to shareholder employees are reasonable in the circumstances and are deductible expenses, then there is no reason why they would not be treated in the same manner as all other salaries. However, there is a reasonableness aspect to deductions under the Income Tax Act. Therefore, they would have to abide by all those rules.

Mr. Attewell: I am sorry, Mr. McCrossan, I did not mean to get you off your line of questioning.

[Translation]

New York, sans se soucier des retenues fiscales et de toutes ces tracasseries et s'immiscer dans les opérations bancaires.

M. Cassidy: Je fais une petite mise au point à propos de ce que je disais plus tôt. Si l'on applique cela à une réserve, il faudrait considérer de l'appliquer à toutes les autres. La situation n'est pas tellement différente dans les autres réserves. Si j'étais chef d'un groupe autochtone, je verrais mal qu'un groupe particulier puisse bénéficier d'un tel précédent.

M. McCrossan: J'ai quelques questions à poser aux hauts fonctionnaires au sujet de cet amendement. Elles portent sur les aspects fiscaux de la réserve. Le président a justement soulevé ce point, lorsqu'il a demandé si une société ou une banque constituée dans la réserve pourrait effectuer des opérations bancaires internationales en franchise d'impôt dans la réserve même. Des témoins nous ont dit que les salaires versés dans les réserves n'étaient pas assujettis à l'impôt fédéral. Cela est-il juste?

M. Farber: Oui, c'est juste, dans la mesure où le salaire en question est versé par une entreprise active dans la réserve.

M. McCrossan: Est-il vrai qu'une petite entreprise constituée en société, active dans une réserve, ne paie pas d'impôt sur les sociétés?

M. Farber: Non, ce n'est pas vrai. Elle paie des impôts comme toute autre société.

M. McCrossan: Même sur ses activités exercées dans les limites de la réserve?

M. Farber: Oui. S'il s'agit d'une société, elle est constituée en vertu des lois de la province ou de la Loi sur les corporations canadiennes. Elle est donc assujettie à l'impôt comme toute autre société. Toutefois, les salaires qui sont versés aux employés et aux actionnaires d'une société indienne active dans la réserve sont exonérés selon les règles que l'on connaît.

M. Attewell: Supposons que les actionnaires d'une société veuillent faire en sorte que leur société ne paie aucun impôt. Il leur suffirait alors de se verser de gros salaires. Il est donc possible qu'une entreprise, même constituée en société, ne paie pas d'impôt, n'est-ce pas?

M. Farber: Je ne suis pas ici pour donner des conseils sur la façon de déjouer les règles applicables à l'impôt sur les sociétés. Je dirai toutefois que si les salaires versés à des employés actionnaires sont raisonnables, selon les circonstances, et qu'ils constituent des dépenses déductibles, il n'y a aucune raison pour qu'ils ne soient pas assujettis aux mêmes règles que tout autre salaire. Il y a toutefois des règles à propos de ce que l'on peut considérer comme des déductions raisonnables dans la Loi de l'impôt sur le revenu. Ils devraient donc se conformer à toutes ces règles.

M. Attewell: Je m'excuse, monsieur McCrossan, je ne voulais pas faire dévier la conversation.

[Texte]

Mr. McCrossan: How is it then that individuals are exempt from taxes if they carry on a non-incorporated business, but their corporations are not exempt from taxes? What are the special characteristics? I thought corporations were treated as persons. Are they not treated as persons domiciled on the reserve?

Mr. Farber: There is no corporation I know of that is a status Indian. Only status Indians are exempt from taxation. I believe that is pursuant to the Indian Act.

Mr. McCrossan: So it is not being a resident of the reserve which counts?

The Chairman: You have to be a status Indian resident on the reserve.

Mr. Farber: That is exactly right, Mr. Chairman.

Mr. McCrossan: I would also like to ask the officials about their considerations in designating two centres. We never had, during our hearings, extensive discussions on restricting the number to two, nor on what the impact would be on Canada of having three centres as opposed to two. There are some people who suggested it should be all centres, as in the States, where any state can designate, I believe, one or two centres. There were a number of briefs presented that way. Indeed, we have notice of an amendment from the Liberal Party to that effect. But what led to choosing the magic number two and why would three be detrimental? Or indeed could three be incremental for Canada?

• 1700

Mr. Farber: Mr. Chairman, I would first like to introduce one of my colleagues, Brian Ernewein, who has been working on the international banking centre legislation for some time now. He will aid me in some of my answers or give them himself.

But in direct reply to Mr. McCrossan's question, it was not a question of picking two or three or four. The number was not the issue. It was the location of both Vancouver and Montreal as strategic locations which was the relevant issue. I suppose if there was another strategic location, it may well have been there. The number had nothing to do with it.

Mr. McCrossan: I see. So Mr. Warner has presented some interesting arguments as to why this has strategic implications. Has the department looked at these types of arguments or even the argument of Halifax? Halifax used to be an important banking centre prior to Confederation. Gradually the business has tended to drift towards central Canada and from Montreal to Toronto.

[Traduction]

M. McCrossan: Comment se fait-il, alors, que les particuliers qui possèdent de petites entreprises non constituées en sociétés soient exonérés d'impôt et qu'il en soit autrement pour les sociétés? Qu'est-ce qui justifie cela? Je pensais que les sociétés étaient considérées comme des particuliers. Ne sont-elles pas considérées de la même façon que des particuliers domiciliés dans les limites de la réserve?

M. Farber: Je ne connais aucune société qui soit considérée comme un Indien inscrit. Seuls les Indiens inscrits sont exonérés d'impôt. Je pense que cela découle de la Loi sur les Indiens.

M. McCrossan: Ce n'est donc pas le fait d'être résident d'une réserve qui compte?

Le président: Il faut être résident de la réserve et avoir le statut d'Indien inscrit.

M. Farber: C'est tout à fait juste, monsieur le président.

M. McCrossan: Je voudrais aussi discuter un peu avec les hauts fonctionnaires de ce qu'ils pensent de la désignation de deux centres. Au cours de nos audiences, nous n'avons jamais vraiment discuté de la limitation à deux centres, ni des effets que cela pourrait avoir au Canada s'il y avait trois centres plutôt que deux. Certaines personnes préféreraient que toutes les provinces puissent désigner des centres, comme aux États-Unis, où chaque État peut désigner, je crois, un ou deux centres. Nous avons reçu de nombreux mémoires dans lesquels on faisait cette proposition. Il y a même un avis d'amendement de la part du parti libéral à cet effet. Pourquoi a-t-on décidé qu'il y aurait deux centres plutôt que trois? Pourquoi serait-il risqué qu'il y en ait trois? Se pourrait-il que ce puisse être, au contraire, avantageux pour le Canada?

M. Farber: Monsieur le président, permettez-moi tout d'abord de vous présenter l'un de mes collègues, M. Brian Ernewein, qui a consacré passablement de temps à la Loi sur les centres bancaires internationaux. Je compte sur lui pour m'aider à répondre à certaines questions, et il répondra lui-même à certaines autres.

Mais pour répondre à la question de M. McCrossan, ce n'est pas tellement le nombre de centres qui importait, mais la valeur stratégique des villes où ils seraient situés, en l'occurrence, Vancouver et Montréal. Je suppose que s'il y avait eu un autre endroit stratégique, il aurait aussi été désigné. Le nombre de centres n'a rien eu à voir dans toute l'affaire.

M. McCrossan: Je vois. M. Warner nous a donc présenté un certain nombre d'arguments plutôt intéressants qui démontrent qu'il s'agissait de choix stratégiques. Votre ministère en a-t-il tenu compte ou a-t-il même songé à Halifax? Avant la Confédération, Halifax était un important centre bancaire. Petit à petit, les activités se sont déplacées vers le centre du Canada, puis de Montréal à Toronto.

[Text]

I can understand picking the strategic centres. Perhaps you could outline why the number of strategic centres that were determined to be acceptable were those two. To what extent did you look at situations such as this reserve, or a situation such as Halifax?

Mr. Farber: Mr. Chairman, again I want to reiterate the number two had nothing to do with it. It was a strategic location of both Vancouver and Montreal—Vancouver with regard to its strategic position in contacts with respect to the Pacific Rim, and Montreal with respect to its strategic location and the very nature of the business that it conducts in European countries.

That was the choice at the time. It was also a choice of Montreal in the context of establishing that kind of activity in Montreal, given its historical banking nature. We did not look at the reserve we have been talking about. I can tell you, at least from my vantage point, I did not know they were interested in becoming an IBC until today.

Mr. McCrossan: One of the things you just mentioned struck me. I guess we have had the opposite arguments from the opposition. The argument in the last little while has been that we have been putting too much concentration on our trade with the States. But in your résumé of choosing the two centres, you indicated that Montreal was very logical in terms of international banking across the Atlantic, and Vancouver was strategically poised for international banking across the Pacific.

Mr. Warner has made the case that the Akwesasne Reserve is strategically placed for international banking with the United States, which seems to be a reasonably major market that you left out of your considerations for international banking. I wonder to what extent you considered international banking dealing with the States and whether another city other than Montreal or Vancouver was strategically placed?

Mr. Brian Ernewein (Tax Policy Officer, Tax Policy and Legislative Branch, Department of Finance): First of all, I believe our banks have established quite a presence in the U.S., and it is not clear whether or not they need to conduct that from Canada. It is certain, I am sure—

Mr. McCrossan: While you are answering that question, could I just raise the issue of the Schedule Bs? I understand for the Schedule As that is true, they have branching networks in the States. But the Schedule B could not in the States.

Mr. Ernewein: With the Schedule Bs in large part they are foreign banks coming to operate in Canada. It is not the reverse situation where they are starting their operation, have their head office in Canada and wish to—

[Translation]

Je comprends bien l'argument des centres stratégiques. Vous pourriez peut-être nous expliquer pourquoi on a reconnu ces deux villes comme des centres stratégiques. Avez-vous songé à cette réserve ou à Halifax, par exemple?

M. Farber: Monsieur le président, je répète que le nombre de centres n'a jamais été un facteur important. C'est la situation stratégique de Vancouver et de Montréal qui a motivé la décision—Vancouver, à cause de sa situation par rapport aux pays du Pacifique, et Montréal, à cause de sa situation stratégique par rapport aux pays européens et du caractère même des relations d'affaires qu'elle entretient avec ces pays.

C'est cette raison qui explique le choix fait à ce moment-là. On a aussi retenu Montréal afin d'y établir ce genre d'activité, à cause de son expérience passée en la matière. Nous n'avons pas songé à la réserve dont vous parlez. Je vous avouerai qu'avant aujourd'hui, je ne savais pas que cette réserve aimerait devenir un centre bancaire international.

M. McCrossan: L'une des choses que vous venez de dire m'a particulièrement frappé. Je crois même que l'opposition a justement soutenu le contraire. On dit que depuis quelque temps, nous nous sommes beaucoup trop concentrés sur nos relations commerciales avec les États-Unis. Mais dans votre résumé au sujet du choix des deux centres, vous dites que le choix de Montréal était très logique en fonction des activités bancaires internationales avec les pays de l'Atlantique, et celui de Vancouver, tout aussi logique, du point de vue des activités bancaires internationales avec les pays du Pacifique.

M. Warner a fait valoir que la réserve Akwesasne est stratégiquement bien placée pour des activités bancaires internationales avec les États-Unis, qui semblent représenter un marché raisonnablement important que vous avez laissé de côté. Dans le cadre de vos travaux, dans quelle mesure avez-vous songé aux activités bancaires internationales avec les États-Unis, et avez-vous considéré qu'une autre ville que Montréal ou Vancouver pourrait avoir une meilleure situation stratégique?

M. Brian Ernewein (agent de la politique de l'impôt, Direction de la politique et de la législation de l'impôt, ministère des Finances): Je dirai tout d'abord que nos banques sont aujourd'hui très présentes aux États-Unis, et il n'est pas évident qu'un tel centre leur serait nécessaire au Canada. Je suis persuadé que...

M. McCrossan: Puis-je vous interrompre un petit instant pour soulever la question des banques de l'annexe B? Pour les banques de l'annexe A, ce que vous dites est vrai, elles ont en effet des réseaux de succursales aux États-Unis. Mais ce n'est pas le cas des banques de l'annexe B.

M. Ernewein: Dans la plupart des cas, les banques de l'annexe B sont des succursales que des banques étrangères ont établies au Canada. La situation n'est pas la même que dans cette réserve où la succursale vient d'entrer en activité, a son siège social au Canada, et désire...

[Texte]

Mr. McCrossan: If you take the example of a Schedule B with an Asian parent. . . Obviously we know that the Japanese financial institutions are becoming exceptionally important. It seemed to me we heard evidence during our travels that a number of financial institutions wanted access to the U.S. market without taking U.S. sovereign risk. Does that not suggest a certain logic to Mr. Warner's presentation?

• 1705

Mr. Ernewein: International banking is not walk-in business. Having someone on the border will not be key to establishing or attracting new business. It is a question of whether you have the infrastructure and—

Mr. McCrossan: If I think of normal international banking as done in New York, for example, does the bill before us not anticipate something else? It requires that almost all the business be done in the city specified to qualify as international banking. Does it not imply that you are looking for walk-in business? If it were applied for abroad, it would almost disqualify under this restrictive legislation.

Mr. Ernewein: I do not believe it is the case. The legislation requires that the activities performed in Canada—

Mr. McCrossan: Solicitation was one of them.

Mr. Ernewein: That is correct. It can be an aspect that will render it eligible for the international banking centre provisions.

The Chairman: You only have to do one of the things. It can solicit, manage or—

Mr. McCrossan: Does that not prove the argument? So long as they set up the service centre Mr. Warner is talking about and do one of those functions on the reserve, given that it is already in part of New York State, there is a significant advantage for banking with the United States.

Mr. Ernewein: I do not know that it would necessarily follow.

Mr. McCrossan: If it would not necessarily follow, can you see any disadvantages which would flow to Canada by virtue of naming the reserve?

Mr. Ernewein: Perhaps it is not achieving a great deal.

Mr. McCrossan: Can any of the officials see any disadvantage in accepting Mr. Warner's amendment?

Mr. Farber: We are not here to debate that issue. We are here to give you answers on the international banking centre proposal as contained in Bill C-64. I am not at liberty to tell you whether my Minister would agree with naming any other location, the reserve or any other place. This is the bill on which we are here to give you answers.

[Traduction]

M. McCrossan: Prenons l'exemple d'une banque de l'annexe B dont le siège social est situé en Asie. . . Nous savons, évidemment, que l'importance des institutions financières japonaises croît d'une manière exponentielle. Au cours de nos audiences, des témoins nous ont dit qu'un certain nombre d'institutions financières souhaitaient avoir accès au marché américain sans vouloir assumer le risque souverain aux É.-U. Cela ne confère-t-il pas une certaine logique à l'exposé de M. Warner?

M. Ernewein: Un centre bancaire international n'offre pas de services au comptoir. Le fait d'avoir un centre à la frontière n'attirera pas davantage de clients. Ce qui importe, c'est l'infrastructure et. . .

M. McCrossan: Ce projet de loi ne prévoit-il pas autre chose, comme les activités bancaires internationales normales exercées à New York, par exemple? Pour que ces activités soient reconnues comme des activités internationales, il exige qu'elles s'effectuent presque complètement dans les limites de la ville. Cela ne revient-il pas à un service au comptoir? Si on l'appliquait aux opérations à l'étranger, cette loi restrictive éliminerait presque ces activités.

M. Ernewein: Je ne pense pas que ce soit le cas. La loi exige que les activités exercées au Canada. . .

M. McCrossan: La sollicitation est l'une de ces activités.

M. Ernewein: C'est juste. Ce peut être un aspect qui le rendra admissible en vertu des dispositions relatives aux centres bancaires internationaux.

Le président: Il suffit d'une seule activité. On peut faire de la sollicitation, gérer ou. . .

M. McCrossan: Cela ne justifie-t-il pas la chose? Si l'on établit le centre de services dont parle M. Warner et si l'on exécute l'une de ces fonctions dans la réserve, compte tenu qu'elle se trouve déjà en partie dans l'État de New York, elle offre d'importants avantages pour des activités bancaires avec les États-Unis.

M. Ernewein: Je ne sais pas si ce serait forcément le cas.

M. McCrossan: Si ce n'était pas forcément le cas, verriez-vous quelques désavantages pour le Canada si l'on désignait cette réserve?

M. Ernewein: Ce ne serait peut-être pas si avantageux que cela.

M. McCrossan: Voyez-vous un inconvénient à accepter la modification que propose M. Warner?

M. Farber: Nous ne sommes pas ici aujourd'hui pour discuter de cette question. Nous sommes venus vous rencontrer pour répondre à vos questions au sujet de la proposition de centres bancaires internationaux présentée dans le projet de loi C-64. Je ne peux pas vous dire si le ministre accepterait de désigner un autre endroit, que ce

[Text]

I think the question can only be answered by Mr. Wilson.
I do not propose—

Mr. McCrossan: Would there be any added tax cost?

Mr. Farber: We do not think there is very much of a tax cost with the two cities chosen already. I think the point has been made clear time and again. We are only picking up international banking activities, deposits and loans to non-residents; we are not trying to move activity around within the country. To the extent that this is hypothetically a possibility, I do not see any additional tax cost.

Mr. Belsher: Would there be added inspection costs if they were scattered beyond the two cities? Obviously you would have to do some inspection on these centres, would you not? Would it not create an added cost of the—

Mr. Ernewein: If I understand the previous discussion, there are no branches on the reserve now.

Mr. Belsher: I am talking about if you were to open it up as Miss Nicholson is suggesting in her amendment, where it would be any location in Canada, would that not increase inspection and operating costs of your department?

Mr. Ernewein: I think it might, but I do not believe we can give you any idea of the significance of it.

Mr. Belsher: It might add costs to the government rather than just for the two cities named.

Mr. Farber: I am sure you appreciate that we are not banking experts. I do not know to what extent the Inspector General of Banks would get involved in it. I suppose theoretically the more there are, the higher the potential cost of those administrative kinds of services.

Mr. Belsher: Mr. Chairman, I raised it with you and the clerk. The motion might be out of order because it would increase costs to the government and was being put forward by an opposition member or a non-government—

The Chairman: I do not think there is any further imposition on the Crown on the normal rulings. How would withholding tax apply between the United States and Canada? Would a bank on the reserve be subject to withholding tax if it paid money to residents of the United States?

Mr. Ernewein: I do not think that our withholding tax rules deal with this specifically. To the extent that a payment is made from a Canadian resident to a non-resident, it is generally subject to withholding tax

[Translation]

soit la réserve en question ou quelque autre ville. Nous sommes ici pour répondre à vos questions au sujet du projet de loi. Seul M. Wilson pourrait répondre à celle-là. Je ne propose pas. . .

M. McCrossan: Cela entraînerait-il d'autres coûts fiscaux?

M. Farber: Nous ne pensons pas que ce soit le cas pour les deux villes qui ont déjà été choisies. On l'a d'ailleurs démontré à maintes et maintes reprises. Tout l'exercice n'a pour but que d'attirer certaines activités bancaires internationales au Canada, gérer des prêts et des dépôts de non-résidents; l'objectif n'est pas d'étendre ces activités dans tout le pays. Dans la mesure où cette entreprise est possible, je ne vois aucun coût fiscal additionnel.

M. Belsher: Si les activités n'étaient pas concentrées dans ces deux villes, cela entraînerait-il des frais d'inspection additionnels? Il faudrait évidemment faire des inspections dans ces centres, n'est-ce pas? Cela n'augmenterait-il pas les frais. . .

M. Ernewein: Si je comprends bien ce que l'on a dit tout à l'heure, il n'y a pas de succursale dans la réserve à l'heure actuelle.

M. Belsher: Si l'on établissait d'autres centres au Canada, comme le suggère M^{lle} Nicholson dans l'amendement qu'elle propose, où que ce soit au Canada, cela n'augmenterait-il pas les frais d'inspection et de fonctionnement de votre ministère?

M. Ernewein: Oui, probablement, mais je ne sais pas dans quelle mesure.

M. Belsher: Il en coûterait probablement plus cher au gouvernement que s'il n'y avait que les deux centres désignés.

M. Farber: Vous comprenez bien que nous ne sommes pas des experts du domaine bancaire. Je ne sais pas dans quelle mesure l'inspecteur général des banques devrait intervenir dans tout cela. Plus il y aurait de centres, je suppose, plus les frais de ces services administratifs risqueraient d'être élevés.

M. Belsher: Monsieur le président, j'ai discuté de la question avec vous ainsi qu'avec le greffier. La motion ne peut être admise parce qu'elle augmenterait les dépenses du gouvernement. Elle a été proposée par un député de l'opposition ou. . .

Le président: Je ne crois pas que cela impose quoi que ce soit de plus à la Couronne par rapport aux décisions habituelles. Comment s'appliquerait la retenue fiscale entre les États-Unis et le Canada? Une banque installée dans la réserve serait-elle assujettie à la retenue fiscale si elle versait de l'argent à des résidents des États-Unis?

M. Ernewein: Je ne crois pas qu'il en soit question spécifiquement dans nos règles relatives à la retenue fiscale. Toute somme que verse un résident canadien à un non-résident est généralement assujettie à la retenue

[Texte]

although, as you are well aware, Mr. Chairman, there are a number of exceptions, particularly with respect to members of the Canadian Payments Association, including the chartered banks. The withholding tax payments made by the bank to a non-resident may in fact be exempt now, irrespective of whether it is in the reserve or not.

Mr. McCrossan: Does this not suggest another important reason for considering it? In the committee's report, we identified withholding tax as a major stumbling block, particularly with respect to international banking as it affects the United States. If you are saying this is a location in Canada where we can get rid of the withholding tax problem, which was, I believe, our first—

Mrs. Collins: This is not what he said.

Mr. Ernewein: I do not believe it is a Canadian withholding tax problem you were identifying. Was it not the foreign withholding taxes, the taxes imposed, for example, by the U.S., with which the report was concerned?

The Chairman: Foreign withholding taxes as well. In other words, the U.S. withholding taxes would not apply because the money would be paid from New York State. Canadian withholding tax would not be applied because the money would be paid... In other words, in this particular location, withholding tax would not apply at all, would it?

Mr. McCrossan: It is a very interesting question. It seemed to me that it would have advantages over every other city in Canada if it were so.

Mr. Ernewein: If you are talking about a Canadian bank making a payment, the issue of whether or not it is subject to withholding tax is generally not determined by where the payment is made from or to. It can be made to a non-resident in Canada and it may still attract withholding tax. The location of the residence is the relevant key, not the location or where the particular person or corporation is located.

Mr. McCrossan: Will you go through it again? It is the residence of the borrower.

Mr. Ernewein: This is right; in the case of a bank, it is the type of taxpayer as well.

As a general proposition, Canadian banks will not be required to withhold non-resident withholding tax on behalf of the non-resident from whom they borrowed money and are paying interest to. There is a very broad exemption for them.

Mr. McCrossan: As far as we are concerned.

Mr. Ernewein: From a Canadian withholding tax perspective, yes.

Mr. McCrossan: What is the status of this reserve with respect to U.S. withholding tax for loans that might be made through this reserve?

[Traduction]

fiscale, malgré qu'il y a de nombreuses exceptions, monsieur le président, comme vous le savez très bien, particulièrement en ce qui a trait aux membres de l'Association canadienne des paiements, et notamment les banques à charte. Il se peut fort bien que les paiements d'une banque à un non-résident soient maintenant exempts d'impôt, qu'elle soit dans la réserve ou non.

M. McCrossan: Cela ne justifie-t-il pas encore davantage de considérer de désigner la réserve? Dans le rapport du Comité, nous reconnaissons la retenue fiscale comme l'une des principales difficultés, particulièrement en ce qui a trait aux activités bancaires à caractère international avec les États-Unis. Si vous reconnaissez cette réserve comme un endroit permettant d'éliminer le problème lié à la retenue fiscale, qui était, je crois, le principal...

Mme Collins: Ce n'est pas ce qu'il a dit.

M. Ernewein: Je ne crois pas que le problème était la retenue fiscale canadienne. N'était-ce pas plutôt les retenues fiscales étrangères, les impôts exigés, par exemple, par les États-Unis, qui étaient le véritable problème?

Le président: Et les retenues fiscales étrangères aussi. Autrement dit, la retenue fiscale américaine ne s'appliquerait pas parce que l'argent serait versé à partir de l'État de New York. La retenue fiscale canadienne ne s'appliquerait pas non plus parce que l'argent serait versé... En d'autres termes, dans cette réserve, aucune retenue fiscale ne s'appliquerait, n'est-ce pas?

M. McCrossan: C'est une question très intéressante. Si c'était le cas, j'ai l'impression que cette réserve serait le meilleur endroit du Canada pour un tel centre.

M. Ernewein: Quand une banque canadienne effectue un paiement, ce n'est généralement pas l'endroit d'où provient le paiement ou sa destination qui sert à déterminer si la retenue fiscale s'applique. Le paiement peut être fait à un non-résident au Canada et malgré cela, être assujéti à la retenue fiscale. C'est le lieu de résidence qui importe, et non l'endroit où se trouve la personne ou la société en cause.

M. McCrossan: Pouvez-vous répéter cela? C'est le lieu de résidence de l'emprunteur.

M. Ernewein: Oui. Dans le cas d'une banque, il y a aussi la catégorie de contribuable qui compte.

Selon la proposition générale, les banques canadiennes n'auront pas à effectuer de retenue fiscale au nom d'un non-résident dont elles auront emprunté de l'argent et auquel elles verseront des intérêts. C'est une exemption très importante pour elles.

M. McCrossan: Pour les banques canadiennes.

M. Ernewein: En ce qui a trait à la retenue fiscale canadienne, oui.

M. McCrossan: Quelle est la situation de cette réserve en ce qui a trait à la retenue fiscale américaine sur des prêts qui pourraient être consentis par cette réserve?

[Text]

Mr. Ernewein: This is a question of U.S. taxation and perhaps any special provisions that apply to the—

Mr. McCrossan: This could be very pertinent to Mr. Warner's amendment. Again going back to the committee's report, we identified that in our opinion the IBC proposal would not fly anyway without some change in withholding tax treaties. I believe our second recommendation here said that the Minister of Finance should investigate whether Canada should enter into bilateral agreements that would reduce or eliminate the withholding tax on gross interest, and the Minister of Finance should specifically examine whether such agreements would facilitate offshore financial transactions being conducted in Canada and whether there would be any net impact in terms of tax revenue or other effects.

I guess the question is: Have we fortuitously, thanks to Mr. Warner, found a situation where we already have this in force—in this one place—because of the nature of the tax treatment of business done in this place?

Mr. Ernewein: If I may go back, you were asking what might happen if this business is done on the reserve but in New York State.

Mr. McCrossan: No, done on the reserve to American residents.

Mr. Ernewein: I would assume from Canada? If it is from New York, we really would not have a start. We could set up an IBC in respect of—

Mr. McCrossan: No, we are talking about being located in the Canadian part of the reserve but doing business with Americans. I think there was some indication already that Americans treated business done out of the reserve as being American business for purposes of American law. And there is talk of businesses that straddle the border, indeed. So is there any indication as to whether business done on this reserve would not be subject to U.S. withholding tax?

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Mr. Ernewein: I suppose I am not aware of any special treatment provided by the U.S. with respect to payments made by American residents to non-residents, including, for example, a Canadian resident. In that respect, if a Canadian bank were to set up an IBC, or the incentive was provided with respect to the St. Regis reserve on the Canadian side, barring any special provision in that regard, the usual U.S. withholding taxes would apply to payments made by an American to a Canadian bank.

Mr. McCrossan: Even though it was made on the reserve?

[Translation]

M. Ernewein: C'est une question qui relève de la Loi de l'impôt américaine, et toute disposition spéciale à cet égard pourrait peut-être. . .

M. McCrossan: Cela pourrait très bien s'appliquer à la modification que propose M. Warner. Dans le rapport du Comité, nous disions que selon nous, la proposition relative aux centres bancaires internationaux serait inapplicable, à moins que l'on apporte une modification aux ententes relatives à la retenue fiscale. Dans notre deuxième recommandation, je crois que nous disions que le ministre des Finances devrait examiner l'opportunité pour le Canada de conclure des accords bilatéraux afin de réduire ou d'éliminer la retenue fiscale sur les intérêts bruts, et que le ministre des Finances détermine si de tels accords permettraient d'attirer des activités financières étrangères au Canada et si cela aurait des effets positifs sur les recettes fiscales ou d'autres répercussions.

La question que je me pose, c'est si par hasard, grâce à M. Warner, nous n'aurions pas découvert un endroit où ce serait déjà possible—cela se pourrait-il—en raison du caractère même du traitement fiscal des activités à cet endroit.

M. Ernewein: Si je peux revenir un peu en arrière, vous demandiez ce qui pourrait arriver si cette activité se faisait à partir de la réserve, mais dans l'État de New York.

M. McCrossan: Non, à partir de la réserve, et à l'intention de résidents américains.

M. Ernewein: A partir du Canada, je suppose? Si c'était à partir de l'État de New York, cela ne pourrait pas marcher. Nous pourrions établir un centre bancaire international. . .

M. McCrossan: Non, nous parlons d'un centre bancaire qui serait situé du côté canadien de la réserve, mais qui ferait affaire avec des Américains. Je pense que l'on a déjà dit que les Américains considèrent que les activités effectuées à partir de cette réserve sont des activités américaines aux fins de la loi américaine. Il y a aussi un certain nombre d'activités qui chevauchent la frontière. Les activités qui s'effectueraient à partir de cette réserve seraient-elles assujetties à la retenue fiscale américaine?

M. Ernewein: À ce que je sache, aucun traitement spécial n'est prévu aux États-Unis en ce qui a trait à des paiements effectués par des résidents américains à des non-résidents, y compris, par exemple, un résident canadien. À cet égard, si une banque canadienne établissait un centre bancaire international, ou si on éliminait toute disposition spéciale dans la réserve St. Regis du côté canadien, la retenue fiscale américaine habituelle s'appliquerait aux paiements effectués par un Américain à une banque canadienne.

M. McCrossan: Même s'ils étaient effectués à partir de la réserve?

[Texte]

Mr. Ernewein: Barring any exception in that regard.

Mr. McCrossan: Well, I wonder if we can have some confirmation from the U.S. authorities as to what the effect would be of an IBC setup on the reserve. Mr. Warner has put it forward, and it seems to me that if there is a withholding-tax advantage, that is a very strong argument in this case and certainly something the committee should know about.

We are already phoning the province of Quebec. Perhaps we could phone the embassy across the street.

Mr. Ernewein: I suspect we would not have the answer. . .

Mr. Cassidy: Mr. Ernewein, regardless of whether there is a net loss in tax terms, as I understand it in an IBC, if a deposit is made by a non-resident in Canada, then normally interest in that deposit is subject to withholding tax, is that correct?

Mr. Ernewein: If it is made with a Canadian bank, no it is not, but for Canadian currency deposits. . . But we have extended the exception for Canadian currency deposits for the international banking centre provision in the same way there is already an exemption for Canadian currency deposits for offshore branches of Canadian banks.

Mr. Cassidy: I think you better explain that to me. You mean to say that if somebody makes an American dollar deposit in a Canadian bank in Canada there is no withholding tax. That is right?

Mr. Ernewein: That is right. There is an exemption there under Part XIII of the act.

Mr. Cassidy: However, any profit made on that particular piece of business by the bank is now subject to tax. Is that right?

Mr. Ernewein: Well, it would make no profit per se from the deposit, but from the loan which it devotes those funds, would it be subject to tax in Canada? Yes.

Mr. Cassidy: Therefore, if you take a particular offshore transaction which involves a deposit and a loan. . . if under current law that deposit and loan is made in Canada, then any profit from the transaction is subject to Canadian tax. Is that right?

Mr. Ernewein: That is correct, if there is any profit on that loan.

Mr. Cassidy: If an IBC comes into force, then any profit on the same loan is not subject to tax, is that right?

Mr. Ernewein: That is the thrust of the incentive, yes.

Mr. Cassidy: Mr. Chairman, Mr. Ernewein has just indicated that but for clause 10 and subclause 63.(1) in here, any transaction carried out in Canada would in fact attract Canadian corporate tax, which we know. Now if I

[Traduction]

M. Ernewein: En faisant abstraction de toute exception à cet égard.

M. McCrossan: Nous pourrions peut-être demander aux autorités américaines ce qui arriverait si l'on établissait un centre bancaire international dans la réserve. M. Warner l'a proposé, et il me semble que si cette proposition offrait quelque avantage relativement à la retenue fiscale, cela militerait énormément en sa faveur, et ce serait sûrement une solution que devrait examiner le Comité.

Nous sommes déjà en contact avec la province de Québec. Nous pourrions peut-être appeler aussi l'ambassade de l'autre côté de la rue.

M. Ernewein: Je doute que nous obtenions une réponse. . .

M. Cassidy: Monsieur Ernewein, qu'il y ait ou non perte nette d'impôt, si je comprends bien, dans un centre bancaire international, l'intérêt versé sur un dépôt appartenant à un non résident est assujetti à la retenue fiscale, n'est-ce pas?

M. Ernewein: Si le dépôt est effectué dans une banque canadienne, non, il ne l'est pas, mais pour les dépôts en devise canadienne. . . Mais nous avons élargi l'exemption au dépôt en devise canadienne dans la disposition relative aux centres bancaires internationaux, comme c'est déjà le cas pour les dépôts en devise canadienne effectués dans des succursales de banque canadienne à l'étranger.

M. Cassidy: Il faudrait que vous m'expliquiez cela. Vous voulez dire qu'un dépôt dans une banque canadienne, au Canada, en devise américaine n'est pas assujetti à la retenue fiscale. Est-ce bien cela?

M. Ernewein: C'est bien cela. C'est une exemption qui est prévue à la partie 13 de la loi.

M. Cassidy: Toutefois, tout bénéfice que pourrait réaliser la banque sur cette opération est aujourd'hui assujetti à l'impôt, n'est-ce pas?

M. Ernewein: Elle ne ferait pas de bénéfice sur le dépôt même, mais serait-elle assujettie à l'impôt au Canada sur le bénéfice qu'elle réaliserait sur le prêt? Oui.

M. Cassidy: Ainsi, une opération étrangère qui prendrait la forme d'un dépôt et d'un prêt. . . en vertu de la loi actuelle, si ce dépôt et ce prêt étaient faits au Canada, tout bénéfice tiré de cette opération serait assujetti à l'impôt canadien, n'est-ce pas?

M. Ernewein: C'est juste, mais si ce prêt permet de réaliser un bénéfice quelconque.

M. Cassidy: Mais dans le cas d'un centre bancaire international, un tel profit n'est pas assujetti à l'impôt, n'est-ce pas?

M. Ernewein: C'est le principal avantage, oui.

M. Cassidy: Monsieur le président, M. Ernewein vient tout juste de confirmer qu'à part l'exemption prévue à l'article 10 et au paragraphe 63.(1), toute opération effectuée au Canada serait assujettie à l'impôt sur les

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understand it correctly, Mr. Warner's amendment is to add to the number of banking centres, to add a third one on the Akwesasne Reserve. If I understand it, what Mr. Warner is suggesting is that business which is done in that reserve which would today attract tax would, after his amendment, not attract tax.

If I can take that a little step further—and maybe the clerk can tune in to this as well—if business which today would attract tax on the reserve would tomorrow, if this amendment were passed, not attract tax, that reflects an expenditure in terms of a loss of revenue to the Crown. As I recall, only the government has the right to move motions that involve money expenditures.

• 1720

The Chairman: This is the point Mr. Minaker brought forth, but there is a lot of precedent on this particular type of situation. There is no direct imposition on the Crown by increasing the number of banking centres, because there is no evidence that will reduce the imposition on the Crown. This is one of those problems you always have to rule on, as to whether this creates another problem or not. I think there is a lot of precedent that this is not a situation that alters the bill so as to create a problem that way.

My only concern about the amendment is that I am wondering whether the amendment is necessary or not. It would seem to me you could probably conduct international banking on the reserve more effectively than anywhere in Canada, simply because I think you could operate it without withholding tax.

Mr. McCrossan: Well, that is something that I have asked the officials about.

The Chairman: In effect, you could probably do a whole lot of things in terms of running private accounts and the rest. I am just wondering whether this place is not a dandy tax shelter, bearing in mind there is evidence around that it is already a tax shelter as far as gasoline and other taxes are concerned, so perhaps it might have some advantage in banking taxes.

Mr. Attewell: Mr. Warner touched on this, but I do not think I got a satisfactory answer. One of my concerns initially, and I think other members of the committee shared it, was that Canadians can be very proud of the number of our world-class banks. They rank very high, worldwide, they are international in nature, and I do not think any of us would want to do anything that starts to diminish or weaken that. You do not build an international centre like Toronto overnight. Indeed, you never build it, you earn it in terms of the expertise and the business you are able to attract.

One of the early proposals, I forget when it was, was that the international banking centres were to offer quite

[Translation]

sociétés, ce que nous savons déjà. Si je comprends bien, par sa proposition, M. Warner voudrait ajouter un troisième centre bancaire, un centre bancaire dans la réserve Akwesasne. M. Warner propose que les activités qui sont aujourd'hui soumises à l'impôt dans cette réserve ne le soient plus après cette modification.

Si je peux pousser le raisonnement un peu plus loin—et le greffier pourrait peut-être en prendre note—si les activités assujetties à l'impôt dans cette réserve ne devraient plus l'être à partir du moment où cette modification serait adoptée, cela entraînerait une dépense additionnelle pour la Couronne, car il y aurait perte de recettes fiscales. À ce que je sache, seul le gouvernement a le droit de présenter des motions qui entraînent des dépenses de deniers publics.

Le président: C'est ce que faisait valoir M. Minaker, mais il y a bien des précédents en la matière. Augmenter le nombre des centres bancaires n'impose directement rien à la Couronne parce que rien ne prouve que cela diminue les recettes de l'État. C'est l'une des difficultés, car il faut toujours déterminer si telle ou telle décision entraîne une autre difficulté ou non. Il y a beaucoup de précédents qui permettent de déterminer qu'il ne s'agit pas là d'une proposition qui modifie le projet de loi au point que cela devienne un problème.

Ma seule inquiétude, à propos de l'amendement, c'est que je me demande si elle est nécessaire ou non. J'ai l'impression que l'on pourrait effectuer des activités bancaires internationales dans cette réserve plus efficacement que n'importe où au Canada, et ce, tout simplement parce qu'il serait possible d'éviter la retenue fiscale.

M. McCrossan: C'est une question que j'ai posée aux hauts fonctionnaires.

Le président: On pourrait aussi probablement faire bien d'autres choses en matière de gestion des comptes privés, et le reste. Je me demande si cet endroit ne serait pas un petit paradis fiscal. Compte tenu des avantages qu'il offre déjà en ce qui a trait aux taxes sur l'essence et certaines autres taxes, il pourrait peut-être aussi en offrir pour les activités bancaires.

M. Attewell: M. Warner a effleuré le sujet, mais je n'ai pas obtenu de réponse satisfaisante. L'une de mes inquiétudes initiales, et je pense que d'autres membres du comité la partage, c'est que les Canadiens peuvent être très fiers du nombre de banques de classe internationale que nous avons. Elles sont très bien cotées à l'échelle mondiale, elles ont un caractère international, et je pense que personne ne voudrait risquer d'en ternir la réputation. On ne construit pas un centre international comme Toronto du jour au lendemain. En fait, un centre international, ça ne se construit pas, ça se gagne avec l'expérience et les activités que l'on peut attirer.

Dans l'une des premières propositions, qui remonte à je ne sais plus trop quand, on disait que les centres

[Texte]

a wide range of services. In the last proposal by the Minister it was narrowed down just to deposit taking and loans to non-residents. That is correct, Mr. Chairman, is it not?

The Chairman: That is right.

Mr. Attewell: It was that narrow. We have tried to determine this through some discussions with banks too, but I would like to ask Mr. Warner. A concern of mine is whether it is just the thin edge of the wedge; that Vancouver and Montreal get these two services and then two years from now come back, hat in hand, saying they cannot make a go of it. incrementally this is not going to be profitable; they need these extra five or six services. Then would we rue the day we approved this kind of a narrow approach?

I want to ask whether Chief Mitchell and the hon. member from Cornwall have discussed the longer term, that it is only deposits and loans? In other words, I think it would be a little misleading if this is just a thin edge of the wedge and you are looking to get other services down the road.

Mr. Warner: I have discussed this with him and I have indicated that the job creation potential of this particular provision is very, very limited.

Mr. Attewell: What would it be, one or two jobs?

Mr. Warner: I do not know. I guess it would be about the same as it would be in Montreal or Vancouver. We are not anticipating a lot of jobs. I would anticipate in Akwesasne that there would be a transfer of some existing jobs from Toronto or perhaps Montreal to co-ordinate the efforts there with the areas that are making the decisions.

Obviously international banking, as you get into a broader aspect of it, involves hundreds and thousands of jobs for our existing banks. There are reasons why most of these activities are conducted offshore. All we are looking at in this particular legislation is a booking agent, that is going to record deposits and loans. Chief Mitchell realizes that this in itself is not a great activity, and I do not think he looks at it as the thin edge of the wedge, as do the other two cities.

• 1725

Montreal and Vancouver have indicated to us that it is the thin edge of the wedge. Akwesasne is not in this category. Akwesasne wants the designation so various parties will take a very close look at the unique nature of Akwesasne and the potential for financial institutions to operate there.

There are other forms other than corporations. I realize that for the international banking centre, it has to be a corporation and a corporate firm. However, it is possible for some other banking to be done in a

[Traduction]

bancaires internationaux allaient offrir un très grand éventail de services. Dans la dernière proposition du ministre, on a réduit ces services aux dépôts et aux prêts à des non-résidents. C'est bien cela, monsieur le président, n'est-ce pas?

Le président: C'est juste.

M. Attewell: Les services se limitent maintenant à cela. Nous avons déjà discuté de la question avec les banquiers, mais je voudrais aussi avoir l'avis de M. Warner. Ne serions-nous pas en train de mettre le doigt dans l'engrenage? Pourrait-il arriver que Vancouver et Montréal obtiennent ces deux services et que deux ans plus tard, elles nous reviennent en disant que c'est impossible, que jamais elles ne pourront faire leurs frais, et qu'il faudrait qu'elles puissent offrir cinq ou six services de plus pour y arriver. Nous en voudrions-nous, alors, d'avoir approuvé ce genre d'approche étroite?

Je voudrais savoir si le chef Mitchell et l'honorable député de Cornwall ont discuté du long terme, s'ils ont tenu compte qu'il ne s'agissait que des services de dépôts et de prêts. Autrement dit, ce serait un peu trompeur, aujourd'hui, si vous leur aviez l'intention de revenir plus tard à la charge pour obtenir d'autres services.

M. Warner: J'en ai discuté avec lui, et j'ai indiqué que le potentiel de création d'emplois de cette disposition particulière est très limitée.

M. Attewell: De combien d'emplois pourrait-il s'agir? Un, deux?

M. Warner: Je ne sais pas. À peu près le même nombre à Montréal ou à Vancouver, je suppose. Nous ne pensons pas que cela créerait tellement d'emplois. Je suppose que certains emplois de Toronto ou de Montréal se retrouveraient à Akwesasne afin d'y coordonner les efforts avec les centres décisionnels.

Il est évident que les centres bancaires internationaux, quand on considère la chose dans son ensemble, représentent des centaines et des milliers d'emplois pour nos banques existantes. Ce n'est pas par hasard que la plupart de ces activités s'effectuent à l'étranger. Tout ce qui ressort de cette loi, c'est un poste d'agent qui sera chargé d'inscrire les dépôts et les prêts. Le chef Mitchell comprend très bien que ce n'est pas le Pérou, et je ne crois pas qu'il voie en cela l'occasion d'obtenir plus tard d'autres services comme les deux autres villes.

Montréal et Vancouver nous ont déclaré qu'ils ne s'agissait que d'un début. Akwesasne n'est pas dans cette catégorie. Akwesasne va être désignée pour attirer l'attention sur cette situation particulière et sur les possibilités qu'elle offre aux établissements financiers.

Il n'y a pas que les corporations. Je sais que dans le contexte des centres bancaires internationaux il est question des corporations et des entités constituées. D'autres activités bancaires sont possibles au niveau des

[Text]

proprietorship, partnership or co-operative where status Indians are the principles. I look at the designation by itself as being very important. In this case, it will make the public and the international investors aware of a very special situation that now exists.

Mr. Attewell: Mr. Chairman, I want to commend my colleague for a very creative presentation and a very sincere one. I am not satisfied there is enough uniqueness to your proposal. I would not want to defend approving one—Mr. Cassidy shared the same sort of idea—elsewhere in Canada with other Indians bands. I am going to be voting against it.

Mr. McCrossan: Mr. Chairman, I have a question I wish to ask the officials; I think it is relevant to this. We still do not know about the withholding tax issue.

Mr. Ernewein: I may have left it with more uncertainty than is probably the case. I made the point before that it is the residence of the payor and the payee, if you will, that is generally relevant; it would be true in this case as well. If the American resident is making a payment to a Canadian, the application of withholding tax would not vary depending upon where the Canadian was located. The fact that it was made by an American to a non-resident would be the determining factor.

The only exception from the general rule in this case would be if St. Regis were specifically identified as a case drawing an exception to the rule. Frankly, I do not know that they are or are not. One would think if... there are not even any banks in St. Regis... under the U.S. code. Since there are not any banks on the reserve right now, there would be little pressure or would have been little pressure in the past to make a special exception for them.

Mr. McCrossan: My question leading from this has to do with the restricted definition of loan and deposit activity:

In this act, activities which can be conducted by institutions other than banks, specifically by trust and loan companies and by credit unions and caisses populaires...

Can a credit union or caisse-populaire qualify under the international banking centre legislation? It would seem to me there might be already be a credit union on the reserve capable of taking deposits in any currency, and likely in both currencies. Almost certainly the credit union on the reserve would take deposits in American and Canadian dollars already. I was looking through the section and I did not see anything in the international banking chapter of the Income Tax Act that actually restricted the business to banks.

Mr. Ernewein: The restriction is to members of the Canadian Payments Association, which can include trust companies and certain caisse-populaires. I do not know whether there are any of these members of the CPA operating on the reserve at this time either.

[Translation]

entreprises individuelles, des sociétés de personnes ou des coopératives, dirigées par des Indiens de plein droit. La désignation comme telle est très importante. Elle peut attirer l'attention du public et des investissements internationaux sur la situation particulière d'Akwesasne.

M. Attewell: Monsieur le président, je félicite mon collègue de son intervention très bien préparée et très sincère. Pour ma part, je ne suis pas sûr que la situation soit si exceptionnelle. Comme M. Cassidy le disait, je ne voudrais pas avoir à défendre ce choix auprès des autres bandes indiennes du Canada. Je vais donc voter contre la proposition.

M. McCrossan: J'aurais une question connexe à poser aux hauts fonctionnaires. Nous ne savons toujours pas à quoi nous en tenir au sujet de la retenue fiscale.

M. Ernewein: J'ai probablement créé inutilement de l'incertitude à ce sujet. J'ai indiqué auparavant que c'est la résidence de celui qui paie ou qui est payé qui compte en règle générale. C'est également vrai dans ce cas-ci. Si un résident américain effectue un paiement à un Canadien, la retenue fiscale ne s'applique pas selon l'endroit où se trouve le Canadien. Le facteur déterminant est que le paiement est effectué par un Américain à un non-résident.

Pour faire exception à la règle, il faudrait que la réserve de St. Regis soit expressément désignée. Je ne sais pas si c'est le cas ou non. Évidemment, s'il n'y a pas... Il n'y a même pas de banque sur la réserve de St. Regis... en vertu du code américain. Comme il n'y a pas de banque sur la réserve actuellement, il y a eu ou il y aurait eu très peu de demandes dans le passé en vue de l'exempter spécifiquement.

M. McCrossan: Ma question a à voir avec la définition restreinte d'activités de prêt et de dépôt:

Dans cette loi, les activités qui peuvent être menées par des établissements autres que des banques, spécialement les sociétés de fiducie et de prêt, les caisses d'épargne et de crédit et les caisses populaires...

Les caisses de crédit ou d'épargne ou les caisses populaires sont-elles admissibles au titre de la Loi sur les centres bancaires internationaux? S'il y avait déjà une caisse de crédit ou d'épargne sur la réserve, elle serait sans doute en mesure d'accepter les dépôts dans les deux devises, la devise américaine et la devise canadienne. J'ai parcouru toutes les dispositions sur les centres bancaires internationaux dans la Loi de l'impôt sur le revenu, mais je n'y ai rien vu qui restreigne cette activité aux banques.

M. Ernewein: La restriction est pour les membres de l'Association canadienne des paiements qui peuvent inclure des sociétés de fiducie et des caisses populaire. J'ignore s'il y a des membres de l'Associations canadiennes des paiements qui exercent une activité quelconque sur la réserve actuellement.

[Texte]

Mr. McCrossan: You are confirming that a participant in the international banking operation need not be a bank.

Mr. Ernewein: This is correct.

Mr. McCrossan: This is intentional.

Mr. Ernewein: It was intended to extend it to members of the Canadian Payments Association because they are the group that is currently entitled to a non-resident withholding tax exemption. There is a direct linkage between this and the international banking centre initiative.

Mr. Layton: Mr. Chairman, the text on page 12 in subclause (3) does say "a prescribed financial institution".

Mr. Ernewein: Are you referring to the legislation itself?

Mr. Layton: Yes.

Mr. Ernewein: Yes, and the explanatory notes indicate that it be intended that the Canadian Payments Association be prescribed for this purpose.

Mr. Layton: Okay.

• 1730

The Chairman: Are there any other questions on the motion that clause 10 of Bill C-64 be amended by striking out line 13 on page 12 and substituting the following:

province of British Columbia, or in the area of Akwesasne, in the province of Ontario or in the Province of Quebec, as a branch.

Mr. Warner: Excuse me, I was not striking out anything; I was adding.

Mr. Waslander: It is a formal statement.

Amendment negatived: nays, 7; yeas, 1

The Chairman: I suggest we adjourn until 10 a.m. tomorrow in the same room when we will continue the discussion.

This meeting is adjourned.

[Traduction]

M. McCrossan: Vous confirmez qu'un participant à une activité d'un centre bancaire international peut très bien ne pas être une banque.

M. Ernewein: Oui.

M. McCrossan: C'est voulu.

M. Ernewein: C'est voulu en ce qui concerne les membres de l'Association canadienne des paiements parce que ce sont ceux qui peuvent faire actuellement l'objet d'une exemption relativement à la retenue fiscale pour les non-résidents. Il y a un lien direct avec l'initiative relative aux centres bancaires internationaux.

M. Layton: Monsieur le président, à la page 12, paragraphe (3), il est question «d'une institution financière visée».

M. Ernewein: Vous voulez parler de la loi elle-même?

M. Layton: Oui.

M. Ernewein: La note explicative indique que ce sont les membres de l'Association canadienne des paiements qui sont visés dans ce contexte.

M. Layton: Très bien.

Le président: Y a-t-il d'autres questions au sujet de la motion voulant que l'article 10 du projet de loi C-64 soit modifié par la suppression de la ligne 9 à la page 12 et son remplacement par ce qui suit:

Vancouver (Colombie-Britannique) ou dans la région d'Akwesasne (Ontario ou Québec) com-

M. Warner: Je m'excuse, mais je ne retranscrit rien; j'ajoute.

M. Waslander: C'est la façon officielle de procéder.

L'amendement est rejeté: non, 7; oui, 1.

Le président: Je propose que nous levions la séance et que nous reprenions nos travaux à 10 heures demain dans la même pièce.

La séance est levée.



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WITNESSES

*From the Tax Policy and Legislation Branch of the
Department of Finance:*

Len Farber, Director, Tax Policy and Legislation;

Harold White, Legislative Counsel;

Brian J. Ernewein, Tax Policy Officer.

TÉMOINS

*De la Direction de la politique et de la législation de
l'impôt du ministère des Finances:*

Len Farber, directeur, Politique et législation de
l'impôt;

Harold White, conseiller législatif;

Brian J. Ernewein, agent de la politique de l'impôt.

HOUSE OF COMMONS

Issue No. 130

Thursday, December 3, 1987

Chairman: Don Blenkarn

CHAMBRE DES COMMUNES

Fascicule n° 130

Le jeudi 3 décembre 1987

Président: Don Blenkarn

*Minutes of Proceedings and Evidence of the
Standing Committee on*

Finance and Economic Affairs

*Procès-verbaux et témoignages du Comité
permanent des*

Finances et des affaires économiques

RESPECTING:

Bill C-64, An Act to amend the Income Tax Act, a
related Act, the Canada Pension Plan and the
Unemployment Insurance Act, 1971

CONCERNANT:

Projet de loi C-64, Loi modifiant la Loi de l'impôt
sur le revenu et la législation connexe ainsi que le
Régime de pensions du Canada et la Loi de 1971
sur l'assurance-chômage

WITNESSES:

(See back cover)

TÉMOINS:

(Voir à l'endos)



Second Session of the Thirty-third Parliament,
1986-87

Deuxième session de la trente-troisième législature,
1986-1987

STANDING COMMITTEE ON FINANCE AND
ECONOMIC AFFAIRS

Chairman: Don Blenkarn

Vice-Chairman: Robert E.J. Layton

Members

Bill Attewell
Suzanne Blais-Grenier
Michael Cassidy
Mary Collins
Simon de Jong
Murray Dorin
Raymond Garneau
Paul McCrossan
George Minaker
Aideen Nicholson
Norman Warner

(Quorum 7)

Marie Carrière

Clerk of the Committee

COMITÉ PERMANENT DES FINANCES ET DES
AFFAIRES ÉCONOMIQUES

Président: Don Blenkarn

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Membres

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Simon de Jong
Murray Dorin
Raymond Garneau
Paul McCrossan
George Minaker
Aideen Nicholson
Norman Warner

(Quorum 7)

Le greffier du Comité

Marie Carrière

MINUTES OF PROCEEDINGS

THURSDAY, DECEMBER 3, 1987
(198)

[Text]

The Standing Committee on Finance and Economic Affairs met at 9:40 o'clock a.m. this day, in Room 269, West Block, the Chairman, Don Blenkarn, presiding.

Members of the Committee present: Don Blenkarn, Michael Cassidy, Mary Collins, Robert Layton, Paul W. McCrossan, George Minaker, Aideen Nicholson and Norman Warner.

Acting Members present: Ross Belsher for Murray Dorin; Stan Graham for Bill Attewell; Jean-Guy Hudon for Suzanne Blais-Grenier and John Parry for Simon de Jong.

In attendance: From the Committee's Research Staff: H. Bert Waslander, Research Director. *From the Research Branch of the Library of Parliament:* Terrence J. Thomas, Research Officer.

Witnesses: From the Tax Policy and Legislation Branch of the Department of Finance: Len Farber, Director, Tax Policy and Legislation; Brian Ernewein, Tax Policy Officer; John Fuke, Associate to the Director General, Legislative Affairs Directorate, Revenue Canada.

The Committee resumed consideration of its Order of Reference dated Tuesday, June 30, 1987 in relation to Bill C-64, an Act to amend the Income Tax Act, a related Act, the Canada Pension Plan and the Unemployment Insurance Act, 1971. (*See Minutes of Proceedings and Evidence, Wednesday, August 12, 1987, Issue No. 78.*)

It was agreed,—That the Committee reprint 3,000 copies in English and 1,000 copies in French of its Eleventh Report on the White Paper on Tax Reform (Stage I).

It was agreed,—That the Committee authorize payment of mileage, Ottawa to Montreal return, to H. Bert Waslander who attended the 96th Tax Conference in Montreal at the Committee's request on November 23 and 24, 1987, from the approved Committee Budget for the fiscal year ending March 31, 1988.

It was agreed,—That the Committee authorize payment of the expenses incurred for extending hospitality for the meetings held in Vancouver, on September 20, 21 and 22, 1987 and in Mont Ste-Marie on October 15, 1987 in the total amount of \$304.60 to be paid from the Committee's approved hospitality budget for the fiscal year ending March 31, 1988.

It was agreed,—That the Chairman be authorized to recommend to the Liaison Committee a transfer of funds in the amount of \$1,800.00, to be added to the hospitality item of the Committee's budget to cover expenses

PROCÈS-VERBAL

LE JEUDI 3 DÉCEMBRE 1987
(198)

[Traduction]

Le Comité permanent des finances et des affaires économiques se réunit, aujourd'hui à 9 h 40, dans la pièce 269 de l'Édifice de l'Ouest, sous la présidence de Don Blenkarn, (*président*).

Membres du Comité présents: Don Blenkarn, Michael Cassidy, Mary Collins, Robert Layton, Paul W. McCrossan, George Minaker, Aideen Nicholson et Norman Warner.

Membres suppléants présents: Ross Belsher remplace Murray Dorin; Stan Graham remplace Bill Attewell; Jean-Guy Hudon remplace Suzanne Blais-Grenier; John Parry remplace Simon de Jong.

Aussi présents: Du personnel de recherche du Comité: H. Bert Waslander, directeur de la recherche. Du Service de recherche de la Bibliothèque du Parlement: Terrence J. Thomas, attaché de recherche.

Témoins: De la Direction de la politique et de la législation de l'impôt du ministère des Finances: Len Farber, directeur, Politique et législation de l'impôt; Brian Ernewein, agent de la politique de l'impôt; John Fuke, associé du directeur général, Direction des affaires législatives, Revenu Canada.

Le Comité examine de nouveau son ordre de renvoi du mardi 30 juin 1987 relatif au projet de loi C-64, Loi modifiant la Loi de l'impôt sur le revenu et la législation connexe ainsi que le Régime de pensions du Canada et la Loi de 1971 sur l'assurance-chômage. (*Voir Procès-verbaux et témoignages du mercredi 12 août 1987, fascicule n° 78.*)

Il est convenu,—Que le Comité commande 3,000 autres exemplaires de la version anglaise, et 1,000 autres exemplaires de la version française de son onzième rapport sur le Livre blanc de la réforme fiscale (Étape I).

Il est convenu,—Que le Comité autorise le remboursement du kilométrage, à l'aller et au retour, d'Ottawa à Montréal, à H. Bert Waslander qui, à la demande du Comité, a assisté au 96^e Colloque fiscal qui s'est tenu à Montréal les 23 et 24 novembre 1987, à même le budget du Comité approuvé pour l'exercice financier se terminant le 31 mars 1988.

Il est convenu,—Que le Comité autorise le paiement des dépenses de représentation courues à l'occasion des réunions des 20, 21 et 22 septembre 1987, à Vancouver; et de la réunion du 15 octobre 1987, à Mont Ste-Marie, formant un total de 304.60\$, à même le budget des dépenses de représentation approuvé pour l'exercice financier se terminant le 31 mars 1988.

Il est convenu,—Que le président du Comité soit autorisé à recommander au Comité de liaison de virer 1,800\$ au chapitre des dépenses de représentation du Comité pour couvrir les dépenses afférentes à ses

incurred on its travels in relation to the White Paper on Tax Reform (Stage I) and to cover estimated expenses with regards to travel in relation to the White Paper on Tax Reform (Stage II) which includes a possible trip to New Zealand.

The witnesses answered questions.

By unanimous consent, the Committee reverted to Clause 3.

Paul McCrossan moved,—That Clause 3 be amended by striking out line 48, at page 3, and substituting the following:

“where before 1989 a taxpayer has not”

After debate, the question being put on the amendment, it was agreed to.

Paul McCrossan moved,—That Clause 3, as amended, be further amended by striking out line 4, at page 4, and substituting the following:

“1988”

After debate, the question being put on the amendment, it was agreed to.

Paul McCrossan moved,—That Clause 3, as amended, be further amended by striking out line 10, at page 4, and substituting the following:

“1990 and subsequent taxation years.”

After debate, the question being put on the amendment, it was agreed to.

Clause 3, as amended, carried.

By unanimous consent, the Committee reverted to Clause 6.

After debate, Clause 6 was allowed to stand.

By unanimous consent, the Committee reverted to Clause 7.

After debate, Clause 7 was allowed to stand.

The Committee resumed consideration of Clause 10.

Aideen Nicholson moved,—That Clause 10 be amended by striking out line 13, at page 12, and substituting the following:

“Province of British Columbia or anywhere else in Canada as a branch”

After debate, the question being put on the amendment, it was negatived on the following recorded vote:

YEAS

Paul McCrossan Aideen Nicholson—(2)

NAYS

Ross Belsher Robert Layton
Mary Collins George Minaker
Stan Graham John Parry—(7)
Jean-Guy Hudon

déplacements effectués en rapport avec le Livre blanc de la réforme fiscale (Étape I), ainsi que les frais estimatifs touchant les déplacements faits en rapport avec le Livre blanc de la réforme fiscale (Étape II), dont un voyage éventuel en Nouvelle-Zélande.

Les témoins répondent aux questions.

Par consentement unanime, le Comité revient à l'article 3.

Paul McCrossan propose,—Que l'article 3 soit modifié en substituant à la ligne 43, page 3, ce qui suit:

«dans le cas où, avant 1989, un contri—»

Après débat, l'amendement proposé est mis aux voix et adopté.

Paul McCrossan propose,—Que l'article 3, ainsi modifié, soit de nouveau modifié en retranchant la ligne 4, page 4, et en y substituant ce qui suit:

«le 31 décembre 1988»

Après débat, l'amendement est mis aux voix et adopté.

Paul McCrossan propose,—Que l'article 3 ainsi modifié soit de nouveau modifié en substituant à la ligne 11, page 4, ce qui suit:

«année d'imposition 1990 et suivantes.»

Après débat, l'amendement proposé est mis aux voix et adopté.

L'article 3, sous sa forme modifiée, est adopté.

Par consentement unanime, le Comité revient à l'article 6.

Après débat, l'article 6 est réservé.

Par consentement unanime, le Comité revient à l'article 7.

Après débat, l'article 7 est réservé.

Le Comité examine de nouveau l'article 10.

Aideen Nicholson propose,—Que l'article 10 soit modifié en retranchant la ligne 9, page 12, et en y substituant ce qui suit:

«Vancouver (Colombie-Britannique) ou n'importe où au Canada»

Après débat, l'amendement proposé est mis aux voix et rejeté à la majorité des voix:

POUR

Paul McCrossan Aideen Nicholson—(2)

CONTRE

Ross Belsher Robert Layton
Mary Collins George Minaker
Stan Graham John Parry—(7)
Jean-Guy Hudon

Paul McCrossan moved,—That Clause 10 be amended by striking out line 23, at page 12, and substituting the following:

“international banking centre business, in respect of the first \$100,000 of net income from such international banking centre business. Net income in excess of \$100,000 shall be included in computing the income of the taxpayer for the year.”

After debate, the result of the recorded vote having been announced:

YEAS

Paul McCrossan	John Parry
George Minaker	Norman Warner—(5)
Aideen Nicholson	

NAYS

Ross Belsher	Jean-Guy Hudon
Mary Collins	Robert Layton—(5)
Stan Graham	

Whereupon the Chairman voted in the negative.

Accordingly the amendment was negatived.

Paul McCrossan moved,—That Clause 10 be amended by striking out line 23, at page 12, and substituting the following:

“international banking centre business, in respect of the first \$100,000,000 of net income from such international banking centre business. Net income in excess of \$100,000,000 shall be included in computing the income of the taxpayer for the year.”

After debate, the amendment was allowed to stand.

Clause 10 was allowed to stand.

By unanimous consent, the Committee reverted to Clause 6.

After debate, Clause 6 carried.

By unanimous consent, the Committee reverted to Clause 7.

After debate, Clause 7 carried.

Mary Collins moved,—That the Committee resume its sitting at 3:30 p.m. this day.

After debate, the question being put on the motion, it was agreed to on the following show of hands: Yeas: 6; Nays: 1.

At 12:30 o'clock p.m., the Committee adjourned to the call of the Chair.

Eugene Morawski
Committee Clerk

Paul McCrossan propose,—Que l'article 10 soit modifié en substituant à la ligne 22, page 12, ce qui suit:

«Des revenus excédant 100,000\$ d'un contribuable provenant d'un tel centre bancaire international doivent être inclus dans le calcul du revenu du contribuable pour l'année.»

Après débat, le résultat du scrutin est annoncé comme suit:

POUR

Paul McCrossan	John Parry
George Minaker	Norman Warner—(5)
Aideen Nicholson	

CONTRE

Ross Belsher	Jean-Guy Hudon
Mary Collins	Robert Layton—(5)
Stan Graham	

Sur quoi, le président du Comité vote par la négative.

L'amendement proposé est donc rejeté.

Paul McCrossan propose,—Que l'article 10 soit modifié en substituant à la ligne 22, page 12, ce qui suit:

«Des revenus excédant cent millions de dollars d'un contribuable d'un tel centre bancaire international doivent être inclus dans le calcul du revenu du contribuable pour l'année.»

Après débat, l'amendement est réservé.

L'article 10 est réservé.

Par consentement unanime, le Comité revient à l'article 6.

Après débat, l'article 6 est adopté.

Par consentement unanime, le Comité revient à l'article 7.

Après débat, l'article 7 est adopté.

Mary Collins propose,—Que le Comité reprenne les travaux à 15 h 30 aujourd'hui.

Après débat, la motion est mise aux voix et adoptée par vote à main levée comme suit: Pour: 6; Contre: 1.

À 12 h 30, le Comité interrompt les travaux jusqu'à nouvelle convocation du président.

Greffier de Comité
Eugene Morawski

EVIDENCE

[Recorded by Electronic Apparatus]

[Texte]

Thursday, December 3, 1987

• 1008

The Chairman: I call the meeting to order. We are continuing with our discussion of Bill C-64, on clause by clause.

Before we move on this morning I have four motions to put to the committee which are of a housekeeping nature and I want to get them completed. The first one is, that the committee reprint 3,000 copies in English and 1,000 in French of its eleventh report of the White Paper on Tax Reform Stage One.

Motion agreed to.

The Chairman: Next motion is that the committee authorize payment of mileage, Ottawa to Montreal, from the approved committee budget for the fiscal year ending March 31, 1988, to Mr. H. Bert Waslander, who attended the 96th conference in Montreal at the committee's request, on November 23 and 24, 1987.

• 1010

Motion agreed to.

The Chairman: Moved that the committee authorize the payment of expenses incurred in extending hospitality for the meetings held in Vancouver on September 19, 21 and 22, 1987, and in Mont Sainte-Marie on October 15, in the amount of \$304.60, to be paid from the committee's approved hospitality budget for the fiscal year March 31, 1988.

Motion agreed to.

The Chairman: Moved that the chairman be authorized to recommend to the Liaison Committee, a transfer of funds in the amount of \$1,800 to be added to the hospitality item of the committee's budget to cover expenses incurred in its travels in relation to the White Paper on Tax Reform, Stage One, and to cover estimated expenses in regard to travel, in relation to the White Paper on Tax Reform, Stage Two, which includes a possible trip to New Zealand.

Motion agreed to.

The Chairman: That is obviously to help cover the booze costs.

Yesterday we were on clause 10, but we did adjourn temporarily on clause 3. The government has found the information contained in those clauses and would like to present that now, if possible. So with the committee's permission I would like to go back to clause 3, and then

TÉMOIGNAGES

[Enregistrement électronique]

[Traduction]

Le jeudi 3 décembre 1987

Le président: La séance est ouverte. Nous poursuivons notre examen, article par article, du projet de loi C-64.

Avant de poursuivre nos travaux sur le projet de loi, j'aimerais que le comité se prononce sur quatre motions de nature administrative. D'abord, que le comité fasse réimprimer 3,000 exemplaires en anglais et 1,000 exemplaires en français de son onzième rapport intitulé «Rapport sur le Livre blanc de la réforme fiscale (Première étape)».

La motion est adoptée.

Le président: Que le comité autorise le remboursement, sur le budget approuvé du comité pour l'exercice se terminant le 31 mars 1988, des frais de déplacement en voiture, entre Ottawa et Montréal, de M. H. Bert Waslander qui, à la demande du comité, a assisté à la 96^{ième} conférence qui s'est tenue à Montréal les 23 et 24 novembre 1987.

La motion est adoptée.

Le président: Il est proposé que le comité autorise le paiement, sur le budget de représentation approuvé du comité pour l'exercice se terminant le 31 mars 1988, des frais de représentation de 304,60\$ engagés lors des réunions tenues à Vancouver les 19, 21 et 22 septembre 1987, et au Mont Sainte-Marie le 15 octobre.

La motion est adoptée.

Le président: Il est proposé que le président soit autorisé à recommander au Comité de liaison le transfert d'une somme de 1,800\$ qui sera ajoutée au poste «représentation» du budget du comité afin de couvrir les dépenses engagées lors de ses déplacements dans le cadre de l'étude du Livre blanc sur la réforme fiscale (première étape), et afin de couvrir le montant estimatif des dépenses des déplacements que pourrait effectuer le comité dans le cadre de son étude du Livre blanc sur la réforme fiscale (deuxième étape), y compris celles d'un éventuel voyage en Nouvelle-Zélande.

La motion est adoptée.

Le président: Ce transfert servira, bien sûr, à couvrir en partie l'achat de boisson.

Quand nous avons interrompu nos travaux hier, nous étions à l'article 10 mais nous avions réservé l'article 3. Les fonctionnaires du ministère ont obtenu les renseignements que nous leur avons demandés sur ces articles et aimeraient nous en faire part maintenant, si

[Texte]

touch clause 5 and 6, because the information that was requested is now available.

On clause 3

Mr. John Farber (Director, Legislation Division, Tax Policy and Legislation Branch, Department of Finance): Mr. Chairman, since the adjournment last night we have been in touch with officials in the province of Quebec as well as officials in our own Financial Institutions and Markets Division. We have some of the numbers the committee was asking for with respect to issued and outstanding compound interest instruments that were issued between 1978 and 1981, and that may be outstanding as of 1987.

Quebec is by far the largest issuer of provincial savings bonds. Our figures indicate that it has roughly \$7.5 billion outstanding, of the approximately \$9 billion issued by all provinces. New issues by Quebec total approximately \$550 million annually, and there are redemptions of roughly \$500 million each year.

Quebec, like the Government of Canada, has issued for several years and continues to issue both regular and compound interest instruments. The terms of the bonds do vary, but a ten-year term is usually the case. In fact, in 1982 they did issue a 15-year bond. We have spoken with senior officials in Quebec and the unofficial figures of outstanding pre-1982 Quebec savings bonds are as follows: compound instruments issued were \$473 million; outstanding, \$151 million; regular instruments issued, \$1.09 billion; outstanding, \$449 million. There are no outstanding pre-1978 issues.

The Chairman: The only amount outstanding is \$151 million compound—

Mr. Farber: And \$449 million, regular.

The Chairman: But regular does not matter.

Mr. Farber: That is right.

The Chairman: We are talking about the compound bonds covered in this section. When is the maturity of those \$151 million?

Mr. Farber: They would be ten-year bonds. Therefore, I presume they would mature in 1991, if they were issued in 1981.

The Chairman: Would the government object to an amendment filed to handle those issues, by altering the 1985 figure to 1989, which would handle the 1991

[Traduction]

possible. Ainsi, avec la permission du comité, j'aimerais reprendre l'article 3 puis passer aux articles 5 et 6, puisque les fonctionnaires sont maintenant en mesure de nous donner les renseignements demandés.

Article 3

M. John Farber (directeur, Division de la législation, Politique et législation de l'impôt, ministère des Finances): Monsieur le président, depuis la fin de la séance hier soir, nous avons communiqué avec les fonctionnaires du gouvernement du Québec et avec ceux de notre propre Division des institutions et des marchés financiers. Nous avons certains des chiffres réclamés par le comité en ce qui concerne les titres à intérêt composé émis entre 1978 et 1981 toujours en circulation en 1987.

La province du Québec est de loin le principal émetteur d'obligations d'épargne provinciales. D'après nos chiffres, la valeur des titres en circulation de cette province s'élèverait à environ 7,5 milliards de dollars, sur un total d'environ 9 milliards de dollars pour l'ensemble des provinces. A chaque année, le Québec émet de nouvelles obligations dont la valeur s'élève à 550 millions de dollars environ, et la valeur des rachats annuels s'établit à environ 500 millions de dollars.

Le gouvernement du Québec, comme celui du Canada, émet depuis plusieurs années des titres à intérêt normal et composé. Ces obligations ont normalement une échéance de 10 ans mais, en 1982, le Québec a émis des obligations ayant une échéance de 15 ans. Nous avons communiqué avec des haut-fonctionnaires du Québec et voici les chiffres non officiels qu'ils nous ont donnés pour les obligations d'épargne du Québec émises avant 1982: valeur des titres à intérêt composé, 473 millions de dollars; valeur de ces titres en circulation, 151 millions de dollars; valeur des titres à intérêt normal, 1,09 milliard de dollars; valeur de ces titres en circulation, 449 millions de dollars. Il n'y a plus en circulation d'obligations émises avant 1978.

Le président: Il n'y a plus en circulation que les titres à intérêt composé dont la valeur s'élève à 151 millions de dollars. . .

M. Farber: Et les titres à intérêt normal, dont la valeur s'établit à 449 millions de dollars.

Le président: Mais les titres à intérêt normal ne comptent pas.

M. Farber: C'est exact.

Le président: Nous parlons des obligations à intérêt composé visées par cet article. Quand les titres, dont la valeur est de 151 millions de dollars, arriveront-ils à échéance?

M. Farber: Il s'agit d'obligations ayant une échéance de 10 ans. Par conséquent, j' imagine qu'elles arriveront à échéance en 1991, si elles ont été émises en 1981.

Le président: Le gouvernement s'opposerait-il à un amendement qui, en remplaçant 1985 par 1989, viserait les obligations qui doivent être rachetées en 1991. Puisque

[Text]

redemption. Since we are talking about only \$151 million outstanding, it would probably solve lots of problems.

Mr. Farber: Well, that would handle the \$151 million that is outstanding.

Mr. Belsher: And the rest of the bonds?

The Chairman: We have checked them out and there is no significant amount anywhere else.

Mr. Farber: Minimal amounts. We do not have an exact breakdown. I have some difficulty answering that question. In the testimony we gave yesterday— while I understand the committee's position regarding equity— my answer to that was that all bond holders were treated equitably in the context of the deferral for one year. It was not just CSB-holders who received the benefit of a one-year deferral, it was all bondholders in Canada who received the benefit of a one-year deferral.

• 1015

The Chairman: I know that, Mr. Farber, but the problem is that anybody who bought one of these after 1981 bought them with their chin up, understanding they would have to report the interest every three years. So anybody after 1981 was given good notice.

What are talking about are people who bought bonds on an cumulative basis prior to 1981. And in order to solve that problem, for the government's own issue we have extended the period by one year, and that covers all of the government's problems. But it does not cover people who bought their provincial issues. And the view was expressed that it would seem to be fair that if we are going to protect the Government of Canada we should protect the provinces at the same time from the assault that undoubtedly will hit them when all of a sudden on December 31, 1988, people are assessed interest on outstanding bonds for about seven years, or eight years at that point, and they have not received their money and they will not receive it until 1990. And particularly when we are only talking of \$151 million as the principal, it does not make that much difference to the taxpayer.

Mr. Layton: It is only a deferral.

The Chairman: It is only a deferral, yes.

Mr. Farber: Well, Mr. Chairman, as stated in a letter to you which you read into the minutes yesterday, the proposal is not an unreasonable proposal from the perspective of the committee. I cannot state from my own position what position the government will want to take on that.

Mr. McCrossan: Mr. Chairman, I understand Mr. Farber's difficulty at this stage. However, I would like to officially place the amendments on the agenda for the committee by moving the amendments, which have been previously circulated and which were prepared as a result of my earlier questions.

[Translation]

nous parlons d'obligations en circulation dont la valeur s'élève à 151 millions de dollars seulement, cela permettrait de régler de nombreux problèmes.

M. Farber: Cet amendement permettrait effectivement d'englober ces 151 millions de dollars correspondant aux obligations de cette catégorie toujours en circulation.

M. Belsher: Et qu'arrive-t-il aux autres obligations?

Le président: Nous nous sommes renseignés, et elles ne représentent pas des sommes significatives.

M. Farber: Il s'agit de sommes négligeables. Nous n'avons pas une ventilation exacte. Il n'y a pas de réponse facile à cette question. Quand le comité a soulevé hier la question du traitement équitable, j'ai répondu que tous les détenteurs d'obligations étaient traités de façon équitable en ce qui concerne le report d'un an. Ce ne sont pas uniquement les détenteurs d'obligations d'épargne du Canada qui ont profité du report d'un an, mais bien tous les détenteurs canadiens d'obligations.

Le président: Je le sais parfaitement, monsieur Farber, mais ceux qui ont acheté ces obligations après 1981 l'ont fait en sachant pertinemment qu'ils auraient à déclarer les intérêts tous les trois ans; voilà le problème. Tous ceux qui en ont acheté après 1981 savaient exactement à quoi s'en tenir.

Nous parlons ici de ceux qui ont acheté, de façon cumulative, des obligations avant 1981. Dans le but de régler ce problème qu'ont les détenteurs d'obligations du gouvernement fédéral, nous avons accordé un report d'un an. Mais ça ne règle en rien le problème de ceux qui ont acheté des obligations provinciales. Certains ont dit que, si nous devons protéger les détenteurs d'obligations du Canada, il serait plus équitable de protéger aussi les détenteurs d'obligations provinciales qui, eux aussi, recevront tout à coup, le 31 décembre 1988, un avis de cotisation pour des intérêts accumulés pendant sept et même huit ans sur des obligations en circulation, alors qu'ils ne toucheront ces intérêts qu'en 1990. Comme le principal s'élève à 151 millions de dollars à peine, cela représente une somme minime pour chaque contribuable.

M. Layton: C'est purement un report.

Le président: Oui.

M. Farber: Monsieur le président, comme nous vous l'avons indiqué dans cette lettre que nous vous avons adressée et que vous avez lue au cours de la séance d'hier, la proposition n'est pas déraisonnable dans l'optique du Comité. Je ne peux toutefois pas m'aventurer à dire quelle sera la position du gouvernement.

M. McCrossan: Monsieur le président, je comprends bien la réticence de M. Farber. Toutefois, j'aimerais proposer officiellement l'adoption des amendements qui ont déjà été distribués et qui ont été préparés comme suite à des questions que j'ai posées précédemment.

[Texte]

The Chairman: All right. The amendment is striking out line 48, page 3, and substituting "where before 1989, a taxpayer has not"; and striking out line 4 on page 4, and substituting "1988"; and striking out line 10, page 4, and substituting "1990, and subsequent taxation years".

Miss Nicholson: I would just like to say that I agree with this amendment, because it does bring in some equity. If the clause remained as it is printed, I think there would be a real discrimination, particularly against holders of Quebec bonds.

Amendment agreed to.

The Chairman: Now, dealing with Clauses 4, 5 and 6, I think it was, or 6 and 7, on retirement compensation arrangements. Mr. Farber, I think you have an expert here to give us the information on that.

Mr. Farber: Mr. Chairman, the questions raised at the hearings yesterday related to superannuation plans of civil servants, hospital and school boards, crown corporation employees, MPs, MPPs, MLAs and judges.

My information, Mr. Chairman, is that the civil servants' plans, while not meeting all the requirements, are registered plans, and pursuant to our October 9, 1986, announcement regarding pension reform must come onside by 1991. If they do not, at that point in time theoretically they could be subject to revocation.

With respect to hospitals and school boards, I understand the plans are registered pension plans as well, ostensibly to permit the employees to deduct their contributions.

• 1020

With respect to Crown corporations, my understanding is that for the most part, they are also registered pension plans. Those for MPs, MPPs and MLAs are now registered plans but do not meet the requirements. The judges' plans are not registered plans; however, there is a provision in the Judges Act that deems a contribution by a judge to be a registered pension plan. As I am sure Mr. McCrossan knows, there is nothing in the October 9 release that deals with those plans.

The one other comment I would make is that with regard to plans that are not funded, even if they are not registered plans post-1991, it is uncertain under the RCA rules whether or not they would be covered by the RCA provisions. Only time will tell. I guess there will be interpretations and assessments at that point in time.

[Traduction]

Le président: D'accord. Voici le texte de la motion: Il est proposé que le paragraphe 3(4) du projet de loi C-64 soit modifié par: substitution à la ligne 43, page 3, de ce qui suit: «dans le cas où, avant 1989, un contri-»; par substitution à la ligne 4, page 4, de ce qui suit: «le 31 décembre 1988»; et par substitution à la ligne 11, page 4, de ce qui suit: «années d'imposition 1990 et suivantes».

Mme Nicholson: Je suis d'accord avec cet amendement parce qu'il rétablira l'équité. Si l'article du projet de loi demeure inchangé, il aura un effet discriminatoire, particulièrement sur les détenteurs d'obligations du Québec.

L'amendement est adopté.

Le président: Passons maintenant aux articles 4, 5 et 6, ou plutôt aux articles 6 et 7, qui traitent des conventions de retraite. Monsieur Farber, vous avez fait venir, je crois, un expert qui peut nous donner les renseignements nécessaires.

M. Farber: Monsieur le président, les questions posées hier par les députés touchaient les régimes de pensions des fonctionnaires, des hôpitaux et des commissions scolaires, des employés des sociétés de la Couronne, des députés, des membres de l'Assemblée nationale et des assemblées législatives et des juges.

D'après les renseignements dont je dispose, monsieur le président, les régimes de pensions des fonctionnaires sont des régimes enregistrés, même s'ils ne satisfont pas à toutes les exigences, et ils devront donc s'y conformer en 1991, au plus tard, conformément au communiqué du 9 octobre 1986 touchant la réforme des pensions. Sans cela, ils pourraient en théorie perdre leur statut de régime enregistré.

En ce qui concerne les régimes des hôpitaux et des conseils scolaires, je crois comprendre qu'il s'agit aussi de régimes de pensions enregistrés visant à permettre aux employés de déduire leurs cotisations.

Je crois aussi comprendre que la plupart des régimes de pensions des sociétés de la Couronne sont des régimes enregistrés. Ceux des députés fédéraux et des députés de l'Assemblée nationale et des assemblées législatives sont maintenant des régimes enregistrés mais ne satisfont pas aux exigences. Les régimes des juges ne sont pas des régimes enregistrés; toutefois, il y a dans la Loi sur les juges une disposition selon laquelle les cotisations des juges sont réputées avoir été versées à un régime de pensions enregistré. Comme le sait M. McCrossan, le communiqué du 9 octobre ne vise pas du tout ces régimes.

Par ailleurs, même si les régimes non capitalisés seront réputés ne pas être des régimes enregistrés après 1991, il n'est pas du tout certain qu'ils seront visés par les règles touchant les conventions de retraite. Nous le saurons en temps et lieu. Il faudra attendre 1991 pour savoir quel sera leur statut.

[Text]

This is the information, I think, that was requested yesterday. We would be pleased to answer any follow-up questions.

Mr. McCrossan: In these clauses it stipulates that amounts related to the offside benefit shall be set aside in an RCA and that interest on those amounts shall be reportable. I would like to know whether you can point me to the parts in subsections (4), (5) and (6) that deal with these registered plans for the public servants, Crown corporations and so on to set aside the moneys that would have been set aside by private corporations, if they had been employees of private corporations.

In other words, you have confirmed that the intent of the law is indeed to catch all of the offside plans, with the exceptions of the ones enumerated. I had some difficulty seeing where they were caught. Perhaps you could point out to me where in these sections you are doing what you just said you intended to do.

Mr. John Fuke (Associate to the Director General, Legislative Affairs Directorate, Department of National Revenue): Any plan that is a registered plan is excluded from the definition of a retirement compensation arrangement. This is in the definition in subsection 248.(1).

The government plans, I understand, are not funded. To be a retirement compensation arrangement, there has to be a contribution to a custodian. If the government plans are not funded, if there is no custodian involved, they would not be an RCA.

Mr. McCrossan: This is a little different from what Mr. Farber just said. There are amounts that go through the books of Canada each year for a government contribution. Mr. Farber just gave the clear impression that these plans were caught, or rather I gathered from what Mr. Farber said that these plans were caught. However, you are saying that because the—

Mr. Fuke: No, they are not caught by the RCA rules.

Mr. McCrossan: What is the reason they are not caught?

Mr. Fuke: They are presently registered plans and therefore are not caught by the RCA rules.

Mr. McCrossan: However, they will be caught as of 1990-91 because the October—

Mr. Fuke: Unless they come onside and are deregistered.

Mr. McCrossan: The law says that all registered plans will be automatically deregistered if they are offside in 1990.

Mr. Fuke: That is not in this legislation.

Mr. McCrossan: I understand it.

[Translation]

Voilà, je crois, les renseignements que vous nous avez demandés hier. Nous nous ferons un plaisir de répondre aux questions additionnelles que vous pourriez vouloir nous poser.

M. McCrossan: Ces articles du projet de loi prévoient que les sommes correspondant à des avantages non conformes devront être versées en vertu d'une convention de retraite et que les intérêts versés sur ces sommes pourront être reportés. Pouvez-vous m'indiquer où il est prévu, dans les articles (4), (5) et (6) qui traitent des régimes de pensions enregistrés des fonctionnaires, des employés de sociétés de la Couronne etc., que les sommes doivent être versées en vertu de conventions de retraite comme elles l'auraient été s'il s'était agi d'employés de sociétés privées.

Autrement dit, vous nous avez confirmé que la loi vise effectivement tous les régimes qui sont non conformes, sauf ceux qui sont énumérés. Je n'arrive pas à voir où cela se trouve. Vous pourriez peut-être m'indiquer quels articles atteignent l'objectif que vous dites être celui de la loi.

M. John Fuke (Direction générale de la législation, ministère du Revenu national): Tout régime de pension enregistré est exclu de la définition de convention de retraite. Voilà la définition du paragraphe 248.(1).

Sauf erreur de ma part, les régimes publics ne sont pas capitalisés. Pour qu'il y ait convention de retraite, il faut que des cotisations soient versées à un dépositaire. Si les régimes publics ne sont pas capitalisés, s'il n'y a pas de dépositaire, il ne peut y avoir de convention de retraite.

M. McCrossan: Ce n'est pas tout à fait ce que vient de dire M. Farber. A chaque année, les contributions du gouvernement sont comptabilisées dans les comptes publics. M. Farber vient nettement de nous donner l'impression que ces régimes sont visés, ou plutôt, c'est ainsi que j'ai interprété la réponse de M. Farber. Toutefois, vous dites qu'en raison du fait. . .

M. Fuke: Non, ces régimes ne sont pas visés par les nouvelles règles sur les conventions de retraite.

M. McCrossan: Et pourquoi ne le sont-ils pas?

M. Fuke: Ce sont des régimes enregistrés et ils ne sont donc pas visés par les nouvelles règles touchant les conventions de retraite.

M. McCrossan: Toutefois, ils seront visés dès 1990-1991 en raison du communiqué du mois d'octobre. . .

M. Fuke: S'ils ne sont pas conformes à ce moment-là, ils perdront leur statut de régimes enregistrés.

M. McCrossan: La loi dit que tous les régimes enregistrés cesseront automatiquement de l'être s'ils ne sont pas conformes en 1990.

M. Fuke: Cela ne se trouve pas dans ce projet de loi.

M. McCrossan: C'est ce que je comprends.

[Texte]

Mr. Fuke: It will be in the pension package when it comes forward. They are not deregistered automatically.

Mr. Farber: I think I made the point that they would not be deregistered automatically. Those plans that are offside have until 1991 to come onside. To the extent that they do not come onside, they would have to be revoked. They are not automatically deregistered.

Mr. McCrossan: Could you explain the difference?

Mr. Farber: There is a revocation procedure.

Mr. McCrossan: What is the difference between being deregistered and being revoked?

Mr. Farber: Revocation would be a conscious action on the part of the registration division of Revenue Canada to formally revoke the plan.

• 1025

Mr. Fuke: It is a complication of their registration.

Mr. McCrossan: Let us take the case of deputy ministers, who are in effect the people who are most offside. There is a limit of \$60,000 pension per annum out of any registered pension plan except the Public Service Superannuation Plan. Any pension plan that pays more than \$60,000 in the private sector cannot be registered and must set up an RCA and pay the tax penalties.

So the only people who are excluded, who are receiving pensions over \$60,000—certainly the MPs cannot exceed \$60,000, because their salary is not that high—and who are not caught by this proposed legislation are the deputy ministers and the judges, I guess. Is that a fair summary? These are the only people you have exempted from these provisions.

Mr. Farber: As indicated earlier, they have until 1991 to come onside. I cannot tell you whether or not they are going to come onside by then.

Mr. McCrossan: And what happens if they do not come onside by 1991?

Mr. Farber: Well, the registration rules will be in the law at that time, and—

Mr. McCrossan: Some deputy minister is responsible for revoking this plan—

Mr. Farber: —Revenue Canada has the right to revoke the plan at that time.

Mr. McCrossan: So you are saying it is the deputy minister for Revenue Canada who has the responsibility to ensure his own pension is revoked? If he takes no action, nothing happens.

Mr. Farber: I am not sure it is the deputy minister who has the responsibility. I think it is the Minister who would

[Traduction]

M. Fuke: C'est ce que prévoira le projet de loi de réforme des pensions quand il sera déposé. Ces régimes ne perdront pas automatiquement leur statut de régimes enregistrés.

M. Farber: Je vous ai bien dit qu'ils ne perdraient pas automatiquement leur statut de régimes enregistrés. Les régimes qui ne sont pas conformes ont jusqu'en 1991 pour le devenir. Après cela, ils perdront leur statut de régimes enregistrés. Mais cela ne se fait pas automatiquement.

M. McCrossan: Pouvez-vous m'expliquer la différence?

M. Farber: Il existe une procédure de dissolution.

M. McCrossan: Quelle est la différence entre la perte du statut de régime enregistré et la dissolution?

M. Farber: Pour qu'il y ait dissolution, il faudrait que la Division de l'enregistrement de Revenu Canada engage des procédures formelles pour dissoudre le régime.

M. Fuke: C'est une complication de leur enregistrement.

M. McCrossan: Prenons le cas des sous-ministres, dont les régimes sont en fait les moins conformes. Il y a une limite de 60,000\$ par an aux pensions versées par tous les régimes enregistrés à l'exception du Régime de retraite de la Fonction publique. Tout régime qui verse plus de 60,000\$ à quelqu'un dans le secteur privé ne peut pas être enregistré et doit constituer une convention de retraite et payer les pénalités fiscales.

Par conséquent, les seules personnes exclues, qui touchent des pensions de plus de 60,000\$—il est certain que le cas ne se présente pas pour les députés puisque leur traitement n'est pas assez élevé pour cela—et qui ne tombent pas sous le coup de ce projet de loi sont les sous-ministres et les juges, je pense. C'est bien cela? Ce sont les seuls que vous ayez exemptés de ces dispositions.

M. Farber: Encore une fois, ils ont jusqu'à 1991 pour s'aligner. Je ne peux pas vous garantir qu'ils le feront d'ici là.

M. McCrossan: Que se passera-t-il s'ils ne le font pas d'ici 1991?

M. Farber: Eh bien, les règles concernant l'enregistrement auront été intégrées à la loi à ce moment-là et...

M. McCrossan: C'est un sous-ministre quelconque qui doit dissoudre ce régime...

M. Farber: ... Revenu Canada aura le droit de le faire à ce moment-là.

M. McCrossan: Vous voulez donc dire que c'est le sous-ministre de Revenu Canada qui est chargé de veiller à ce que son propre régime soit dissous? S'il ne fait rien, il ne se passera rien.

M. Farber: Je ne suis pas certain que ce soit lui qui ait cette responsabilité. Je pense que ce serait le ministre.

[Text]

have the responsibility. I guess in 1991 when those registration rules become law, if they do not meet the requirements, the option will be there to revoke the registration. I cannot tell this committee at this time what is going to happen in 1991.

Mr. McCrossan: You made another statement that struck me as a little curious, which is that even if they are unfunded, the law may not apply to them. The only formerly unfunded pension plan I am aware of is the very same pension plan. I guess there are five of them, actually. They are those for the MPs and senators, the judges, the public service, the armed forces, and the RCMP. So are you saying that even after 1991, the way this proposed legislation is drafted, because these plans are not funded, they do not fall under the ambit of the act, so an exclusion has been drafted that exempts these plans.

Mr. Fuke: The proposed legislation you have before you does not deal with contributions by employees to revoked pension plans. That again is in the pension package.

Mr. McCrossan: I understand that.

Mr. Fuke: So the proposal there is that the contributions by an employee to a revoked plan may still be deductible within certain limits. But that is not in this bill.

Mr. McCrossan: So even though they are off-side, they can still deduct the full contribution required by the pension plan this year, next year, and forever.

Mr. Fuke: I am not saying that, sir. I am saying that is being dealt with in the proposed pension legislation, which is not before us.

Mr. McCrossan: You made allusion to the status of unfunded plans being unclear. Can you tell me how it is unclear? Where it is unclear?

Mr. Fuke: A retirement compensation arrangement by definition is a plan under which money is transferred to a custodian. If there has been no such transfer, then it is not a retirement compensation arrangement.

Mr. McCrossan: Even though the employee, in this case the deputy minister, is paying money in, you are telling me there is no custodian of that money. The Government of Canada just receives it, and it does not need to set up a custodian, because it is the Government of Canada and its word is good. And because it has not set up a custodian, it does not trigger this. So this has been crafted in such a way that the people who draft the laws have exempted themselves.

[Translation]

J'imagine qu'en 1991, quand ces règles auront été incorporées à la loi, si leurs exigences ne sont pas respectées, on pourra révoquer l'enregistrement. Je ne peux pas dire à votre Comité ce qui se passera en 1991.

M. McCrossan: Vous avez aussi dit quelque chose que j'ai trouvé un peu curieux, c'est que même s'ils ne sont pas capitalisés, la loi peut ne pas s'appliquer à eux. Le seul régime de pensions préalablement non capitalisé que je connaisse, c'est précisément ce régime de pensions-là. Je pense qu'en fait il y en a cinq. Il y a celui des députés et des sénateurs, celui des juges, celui de la Fonction publique, celui des Forces armées et celui de la GRC. D'après ce que vous dites, même après 1991, étant donné la façon dont le texte de ce projet de loi est rédigé, comme ces régimes ne sont pas capitalisés, ils ne tomberont pas sous le coup de cette loi, c'est-à-dire qu'en fait on a intégré à la loi une disposition d'exemption pour ces régimes.

M. Fuke: Le projet de loi que vous avez sous les yeux ne concerne pas les cotisations des employés à des régimes de pensions dont l'enregistrement a été révoqué. Encore une fois, cela relève de l'ensemble de mesures sur les pensions.

M. McCrossan: Je le comprends bien.

M. Fuke: Donc, ce qui est proposé, c'est que les cotisations d'un employé à un régime dont l'enregistrement a été révoqué puissent quand même être déductibles dans une certaine limite. Mais cela ne figure pas dans ce projet de loi.

M. McCrossan: Donc, même si les régimes contreviennent aux règles, les employés pourront quand même déduire la totalité de la cotisation requise par le régime de pensions cette année, l'année prochaine et indéfiniment.

M. Fuke: Ce n'est pas ce que je dis. Je dis que la question relève du projet de loi envisagé sur les pensions que nous n'avons pas sous les yeux.

M. McCrossan: Vous avez dit que le statut des régimes non capitalisés n'était pas clair. Pourriez-vous m'expliquer pourquoi? En quoi n'est-il pas clair?

M. Fuke: Une convention de retraite, par définition, est un régime en vertu duquel on transfère de l'argent à un dépositaire. Si ce transfert n'est pas effectué, il n'y a pas de convention de retraite.

M. McCrossan: Même si l'employé, en l'occurrence le sous-ministre, cotise à ce régime, vous voulez dire qu'il n'y a pas de dépositaire de cet argent. Le gouvernement du Canada se contente de le recevoir, et il n'a pas besoin de nommer un dépositaire, parce qu'il est le gouvernement du Canada et qu'on peut le croire sur parole. Comme il ne nomme pas de dépositaire, ce mécanisme ne s'applique pas. Les rédacteurs des lois ont donc conçu ce système de façon à s'exempter eux-mêmes.

[Texte]

[Traduction]

• 1030

The Chairman: Is there any amendment you are proposing for clause 6?

Mr. McCrossan: I may well have some if they can point the section to me which is operative and which excludes these unfunded plans. I would happy to add the words "whether funded or unfunded" into the law, but I have been trying to find out where the provision is that places in difficulty this particular issue.

The Chairman: In other words, the information supplied does not satisfy you so far.

Mr. McCrossan: I have read the clauses and I cannot find out where these are dealt with. It is peculiar that everybody in the country seems to be dealt with except—

The Chairman: Deputy ministers.

Mr. McCrossan: I am curious as to where the mechanism is that exempts them and I would be happy to move an amendment to fix that up.

The Chairman: It would probably apply to Cabinet Ministers, too, because I think their salary is now included in the pension. Their salary is in excess of \$100,000—

Mr. McCrossan: That is quite possible.

The Chairman: —which means that, since they get pension based on the final six years, the 75% would be in excess of \$60,000.

Mr. McCrossan: Actually, it is unlikely to be, but—

The Chairman: It could be.

Mr. McCrossan: —it is possible.

The Chairman: So this section is for the benefit of deputy ministers. What is the solution to this? Mr. McCrossan says he can fix the section. He says he can make an amendment to—

Mr. McCrossan: My purpose would be to add the words "whether funded or unfunded" in the appropriate place in the act that describes a registered pension plan.

Mr. Fuke: What is that going to accomplish?

Mr. McCrossan: It will bring unfunded registered pension plans into the ambit of this section of the act.

Mr. Fuke: The purpose of the retirement compensation arrangement is to extract tax now, although deductible, for these extra plans that are being established by employers for their employees. It is not dealing with employee contributions to various plans. Employee contributions are being dealt with in the—

Mr. McCrossan: I understand that.

Mr. Fuke: So therefore if there is no contribution made, then there is no deduction being claimed by the

Le président: Proposez-vous un amendement pour l'article 6?

M. McCrossan: Ce serait bien possible s'ils peuvent me préciser l'article qui s'applique et qui exclut ces régimes non capitalisés. J'aimerais bien ajouter les mots «capitalisé ou non capitalisé» au texte de la loi, mais je n'ai pas réussi à trouver la disposition qui nous pose ce problème.

Le président: Autrement dit, vous n'êtes pas satisfait des informations qu'on nous a communiquées jusqu'à présent.

M. McCrossan: J'ai lu tout le texte et je ne trouve pas le passage qui concerne ces régimes. Il est curieux que tout le monde dans le pays semble tomber sur le coup de ces dispositions à l'exception des...

Le président: Sous-ministres.

M. McCrossan: J'aimerais bien voir où se trouve le mécanisme qui les exempte et proposer un amendement pour régler ce problème.

Le président: Cela s'appliquerait probablement aux ministres aussi, car je pense que leur traitement est maintenant inclus dans la pension. Ils ont un traitement de plus de 100,000\$...

M. McCrossan: C'est bien possible.

Le président: ... c'est-à-dire que, si leur pension est calculée en fonction des six dernières années, les 75 p. 100 représenteront plus de 60,000\$.

M. McCrossan: En fait, c'est peu probable, mais...

Le président: Ce serait possible.

M. McCrossan: ... c'est possible.

Le président: Par conséquent cet article avantage les sous-ministres. Quelle solution peut-on trouver? M. McCrossan dit qu'il peut arranger cet article. Il peut proposer un amendement...

M. McCrossan: Je voudrais ajouter les mots «capitalisé ou non capitalisé» à l'endroit du projet de loi où l'on parle des régimes enregistrés de pensions.

M. Fuke: Cela vous donnerait quoi?

M. McCrossan: Cela ferait tomber les régimes enregistrés de pensions non capitalisés sous le coup de cet article de la loi.

M. Fuke: Le but des conventions de retraite est de prélever des impôts maintenant, bien que les cotisations soient déductibles, sur ces régimes supplémentaires mis sur pied par les employeurs pour leurs employés. Il ne s'agit pas des cotisations des employés à divers régimes. Les cotisations des employés relèvent de...

M. McCrossan: Je comprends bien.

M. Fuke: Donc, s'il n'y a pas de contributions, l'employeur ne réclame pas de déduction. Si un

[Text]

employer. An employer who makes a commitment to pay an employee something in the future... We are not extracting any taxes from that. We are only looking at plans where an employer is transferring money to a custodian, where the funds may be vested in the employee.

With respect to existing pension plans, which are now registered, which are not being dealt with by the RCA, they will be dealt with—where the plans may be offside by virtue of the new rules—in the pension package which will be forthcoming.

Mr. McCrossan: Let me just switch to the provincial equivalent plans which are offside.

Mr. Fuke: They are at this time registered plans and so they are not caught by the RCA provisions.

Mr. McCrossan: But they will be.

Mr. Fuke: If they do not meet the requirements and if their registration is revoked, then they will cease to be registered plans.

Mr. McCrossan: If they do not fund them, as they do not, then they are not caught.

Mr. Fuke: That is correct and, as a result, there is no deferral. The employee's contributions may not be deductible, so his contribution limit for his RSP will be untouched. Sorry, that is not in this legislation. That is what is in the pension package.

• 1035

Mrs. Collins: I assume the employer's contribution is ordinarily tax deductible from his expenses.

Mr. Fuke: We are dealing with the retirement compensation arrangement, primarily the employer who did not care if his contribution was deductible.

Mr. McCrossan: Most of them were non-taxable in the first place.

Mr. Fuke: Yes, they were non-taxable entities in the first place. When money is set aside by these institutions for their employees, there is a 50% withholding of tax from the transfers to the custodian.

Mrs. Collins: The government does not pay tax to itself, so why does—

Mr. McCrossan: No, not the federal government, but there are always other levels of government like the Crown corporations, the provinces and municipalities, all of which are non-taxable. As I understand it, these were the primary people using this device. They knew they were non-taxable. They were deliberately setting up pension plans for their employees which were more generous than the legal limits because all they had to lose was tax deductibility of their contributions.

[Translation]

employeur s'engage à verser quelque chose à l'avenir à un employé... on n'impose pas cela. Nous ne nous occupons que des régimes dans le cadre desquels un employeur transfère de l'argent à un dépositaire, et où l'argent est dévolu à l'employé.

En ce qui concerne les régimes de pensions existants déjà enregistrés, et qui ne sont pas visés par les règles sur les conventions de retraite, leur cas sera réglé—dans le cas où ils contreviennent aux nouvelles règles—par l'ensemble de mesures sur les pensions qui va être bientôt présenté.

M. McCrossan: Passons aux régimes provinciaux équivalents qui eux aussi contreviennent aux règles.

M. Fuke: Pour l'instant, ce sont des régimes enregistrés et ils ne tombent pas sous le coup des dispositions concernant les conventions de retraite.

M. McCrossan: Mais ça viendra.

M. Fuke: S'ils ne respectent pas les exigences et si leur enregistrement est révoqué, ils cesseront d'être des régimes enregistrés.

M. McCrossan: S'ils ne sont pas capitalisés, comme c'est déjà le cas, ils échapperont à ces dispositions.

M. Fuke: C'est exact et par conséquent il n'y aura pas de report. Les cotisations de l'employé ne pourront pas être déductibles, et sa limite de cotisation à son REE ne changera pas. Pardon, ce n'est pas dans ce projet de loi, c'est dans l'ensemble de mesures sur les pensions.

Mme Collins: J'imagine que l'employeur peut normalement déduire ses contributions de ses frais, aux fins de l'impôt.

M. Fuke: Nous parlons des conventions de retraite, c'est-à-dire essentiellement des employeurs pour qui le fait que leurs contributions soient déductibles n'a aucune importance.

M. McCrossan: La plupart d'entre eux ne sont pas imposables de toute façon.

M. Fuke: Oui, ce sont des organismes non imposables au départ. Quand ils mettent de côté de l'argent pour leurs employés, il y a une retenue d'impôt de 50 p. 100 sur les transferts au dépositaire.

Mme Collins: Le gouvernement ne se paie pas lui-même d'impôt, alors pourquoi...

M. McCrossan: Non, pas le gouvernement fédéral, mais il y a toujours les sociétés d'État, les provinces, les municipalités qui ne sont pas non plus imposables. Pour autant que je sache, ce sont surtout ces gens-là qui se servaient de ce mécanisme en sachant qu'ils n'étaient pas imposables. Ils créaient délibérément pour leurs employés des régimes de pensions plus généreux que ne le permet la loi parce que tout ce qu'ils avaient à perdre, c'était la déductibilité de leurs contributions.

[Texte]

Two factors are involved. The first is that they have to transfer half the contribution to the federal government as a withholding tax. The second is that they have to pay tax on the interest build-up inside the fund. It is a withholding tax. They are both refundable.

You have to pay tax on the money set aside and on the interest set aside, but if the government simply decides not to fund it, to receive the employees' contributions and not to set up a formal fund for the benefits offside, they escape this legislation. That is what you are telling me.

Mr. Fuke: So would any hospital or university choosing to do the same thing.

Mr. McCrossan: This is where I have difficulty with the thing. This was a tax loophole only available to governmental organizations to provide pensions more generous than those allowed to anybody else. You are telling me this has been drafted in such a way that it is ineffective.

Mr. Farber: Mr. Chairman, I do not understand that comment. We are talking about funded plans. If a plan is funded, the employee is assured of getting that portion of his contribution and the employer's contribution to the plan. If a plan is not funded, the employee has no certainty that he is ever going to get the other part of the contribution. We are talking about the funded ones. I fail to understand why there is a problem. As Mr. McCrossan indicated, this legislation is trying to address the tax deferral element. There is no tax deferral element if the plan is not funded.

Mr. McCrossan: That is not so. If there are contributions for the plan because—

Mr. Farber: The contributions are registered pension plan contributions, like contributions for anybody including contributions to registered retirement savings plans. Those are actual contributions the employee makes. We are talking about the other side of it.

Mr. McCrossan: The effect of what you are saying is that governments and their subsidiaries can continue to set up offside pension plans simply by promising to pay the excess and by not funding it. In the private sector, generally you would not accept such an arrangement because you do not have the certainty in payment. The only people who can guarantee payment are the people who can levy taxes at their whim.

The loophole has been identified. It is costing a large amount of tax dollars. As you know, these contributions were received currently by trustees and were invested. They were like little mini RRSPs set up on the side. Instead of paying it to a trustee, you pay it to the employer who sets up a notional fund and credits you with the same interest as before. It is exactly the same plan except the employer holds the money and does not

[Traduction]

Il y a deux facteurs ici. D'une part, ils doivent transférer une somme équivalant à la moitié de la contribution au gouvernement fédéral sous forme de retenue d'impôt. Deuxièmement, ils doivent payer des impôts sur les intérêts accumulés. C'est une retenue à la source. Les deux sont remboursables.

Vous devez payer des impôts sur l'argent mis de côté et sur les intérêts mis de côté, mais si le gouvernement décide tout simplement de ne pas capitaliser le régime, de se contenter d'encaisser les cotisations des employés sans créer officiellement une caisse pour les avantages additionnels, il échappe à cette mesure législative. C'est bien ce que vous dites.

M. Fuke: Ce serait la même chose pour un hôpital ou pour une université qui suivrait la même voie.

M. McCrossan: C'est là que j'ai un problème. Il s'agit d'une échappatoire fiscale dont pouvaient profiter seulement les organisations gouvernementales qui voulaient accorder à leurs employés des pensions plus généreuses que celles qui étaient accordées aux autres. Vous êtes en train de me dire que ce texte est rédigé de telle manière qu'il est inefficace.

M. Farber: Monsieur le président, je ne comprends pas. Nous parlons des régimes capitalisés. Si un régime est capitalisé, l'employé a la garantie de toucher cette partie de sa cotisation et la contribution de l'employeur au régime. Si un régime n'est pas capitalisé, l'employé n'a pas la certitude de toucher un jour les contributions de l'employeur. Nous parlons des régimes capitalisés. Je ne vois pas le problème. Comme l'a dit M. McCrossan, le projet de loi essaie de régler le problème du report d'impôt. Si le régime n'est pas capitalisé, il n'y a pas de report d'impôt.

M. McCrossan: Pas du tout. S'il y a des cotisations au régime parce que...

M. Farber: Les cotisations sont des cotisations à un régime enregistré de pension, comme toutes les autres cotisations y compris celles à des régimes enregistrés d'épargne-retraite. Ce sont les cotisations réelles que fait l'employé. Nous parlons de l'autre côté de la question.

M. McCrossan: D'après ce que vous dites, les gouvernements et leurs succursales peuvent continuer à mettre sur pied des régimes de pensions non conformes aux règles en se contentant de promettre de payer le supplément sans capitaliser les régimes. Dans l'ensemble, une telle disposition ne serait pas acceptée dans le secteur privé car l'on n'aurait pas la certitude d'être payé. Les seuls qui puissent garantir le paiement, ce sont ceux qui peuvent lever des impôts comme bon leur semble.

On a identifié cette échappatoire. Elle nous coûte des sommes considérables. Comme vous le savez, on confiait jusqu'à présent ces cotisations à des fiduciaires qui les investissaient. C'était comme des mini-REER parallèles. Au lieu de confier cela à un fiduciaire, vous versez maintenant l'argent à l'employeur qui crée une caisse fictive et vous crédite du même intérêt qu'avant. C'est exactement le même régime, sauf que l'employeur garde

[Text]

set it aside with a trustee. You have not closed down anything and you allow all these governmental agencies to set up their plans.

Mr. Fuke: Some of these arrangements may be caught by the rules for salary deferral arrangements. That legislation is already in the act. It covers if—

Mr. McCrossan: These were not caught previously.

The Chairman: What do you mean when you say they would be caught by salary deferral arrangements?

Mr. Fuke: A salary deferral arrangement is a concept already in the act. It is a situation where an individual is saying not to pay him the income now, but to pay it later. We dealt with that a year ago.

• 1040

Mr. Fuke: If the employee is saying to his non-taxable employer, do not pay me the money now but promise to pay me in the future, then that is caught by the salary deferral arrangement rules.

Mr. McCrossan: I would like to stand this clause again and ask if an arrangement is set up whereby an employee pays a contribution for an offside benefit that is received by an employer and not set aside by a trustee, and the employer then—

Mr. Fuke: Whose money is it when the employee pays it to the employer?

Mr. McCrossan: It is the employer's money.

Mr. Fuke: Is he not holding that money as trustee of the employer?

Mr. McCrossan: No, he just pays it for value to be received in the future. The employer then sets up a notional account the way they used to, with matching contributions deemed notional matching contributions and pays the interest.

Mr. Fuke: I doubt the employee would do that because he does not get any deduction for that payment.

The Chairman: He does not pay tax on it. If there is for example a salary arrangement at \$100,000 a year, the employee is happy to take the \$80,000 salary, and never gets paid \$20,000. It goes into his pension account, with an equal amount paid by the employer, and the employer keeps a notional account and pays interest on that, but it is never paid to anybody.

Mr. Fuke: So that may be a salary deferral arrangement.

The Chairman: That may be, but anyway there is nothing you can do in law to stop that. So I think we are

[Translation]

l'argent et ne le confie pas à un fiduciaire. Vous n'avez donc fermé aucune échappatoire et vous permettez à tous ces organismes gouvernementaux de se constituer leur propre régime.

M. Fuke: Certains de ces arrangements peuvent tomber sous le coup des dispositions concernant les ententes d'échelonnement du traitement. C'est déjà prévu par la loi. Ces dispositions s'appliquent si. . .

M. McCrossan: Auparavant, ils y échappaient.

Le président: Que voulez-vous dire quand vous dites que ces arrangements tomberaient sous le coup des dispositions concernant les ententes d'échelonnement du traitement?

M. Fuke: La loi traite déjà des ententes d'échelonnement du traitement. Il s'agit de situations où quelqu'un demande à ne pas toucher son revenu maintenant, mais plus tard. Nous en avons déjà parlé il y a un an.

M. Fuke: Si l'employé dit à son employeur non imposable de ne pas lui verser son argent maintenant, mais plus tard, il tombe sous le coup des règles concernant les ententes d'échelonnement du traitement.

M. McCrossan: J'aimerais que cet article soit encore réservé et poser une question. Si un employé s'arrange pour verser une cotisation en vue de bénéficier d'un avantage non conforme aux règles, et que l'employeur reçoit cette cotisation et ne la confie pas à un dépositaire, et qu'ensuite l'employeur. . .

M. Fuke: Il s'agit de l'argent de qui quand l'employé le donne à l'employeur?

M. McCrossan: C'est l'argent de l'employeur.

M. Fuke: Il ne le détient pas en fiducie pour l'employé?

M. McCrossan: Non, cet argent est versé en échange d'une contrepartie payable dans l'avenir. L'employeur établit un compte fictif comme cela se faisait auparavant, avec des contributions, elles aussi fictives, correspondant aux cotisations de l'employé, et il verse l'intérêt.

M. Fuke: Je ne vois pas pourquoi un employé le ferait puisqu'il ne pourrait pas obtenir de déduction pour ce versement.

Le président: Il ne paie pas d'impôt là-dessus. Prenons le cas d'un employé qui touche 100,000\$ par an. Il se contente d'en empocher 80,000\$, et on ne lui verse pas les 20,000\$ restants. Ce montant est versé sur son compte de pension, l'employeur y verse un montant équivalent, tient une comptabilité officieuse de ce compte et y verse des intérêts, mais l'argent n'est jamais versé à quelqu'un.

M. Fuke: On peut donc dire qu'il s'agit d'une entente d'échelonnement du traitement.

Le président: Peut-être, mais légalement rien ne vous empêche de le faire. Je crois que nous tournons en rond.

[Texte]

talking in circles. It seems to me if employers and employees want to get together, and the employer is a non-taxable employer, so that there is no problem of a deduction from the employer's point of view, there is nothing you can do about it. There was nothing to prevent an employer from paying an employee more money than he is worth in a particular year, particularly when you are dealing with non-taxable entities like school boards, municipalities or universities. They make all sort of arrangements because they do not pay taxes. It is the old sabbatical problem: they decide to give someone a house, but they put a notional value on the house. It is very difficult to prove the value of it.

Mr. Fuke: The retirement compensation arrangement legislation is designed to get at those instances where it has gone beyond that, where the money has been set aside with a custodian and the employee then has a certainty of getting the money.

The Chairman: What you have done here is caught the situation where the money is in fact set aside and have been able to have a taxable back of 50% on it and tax the interest and so on, on a refundable basis.

Where there is nothing set aside, I do not see how you could in any way ever catch it in law. There is nothing to prevent people from making shakehand deals on what will happen in the future if both parties are prepared to go along with it and the employee is prepared to trust the employer.

You could do it by contract. A man could enter into an employment contract that will pay his estate to the year 2010, even if he is not living.

Mr. Layton: Mr. Chairman, as Mr. McCrossan has said, there is not much risk when we are dealing with the public sector. So the commitment is more than just a handshake behind the curtain. It becomes a commitment on behalf of the government to fund. Is there no way that Mr. McCrossan's suggestion that funded or non-funded could be introduced into the legislation?

• 1045

Mr. Fuke: It certainly goes well beyond the parameters of what we are doing here, and we are looking here at an event—the transfer of funds to the custodian. When we do not have that event, the concern then is: What is the point at which the tax is to be extracted?

Mr. Layton: My reaction would be that presumably it has to be annually at some point in the fiscal year; maybe it is December 31.

Mr. McCrossan: Well my concern on this thing is fairly straightforward—that we are coming down very hard on private-sector offside plans on this. And I think everyone recognizes that the RCA proposal is right at the limits of being punitive. It extracts the maximum tax possible at the highest tax bracket, and it is—

[Traduction]

J'ai l'impression que si les employeurs et les employés veulent s'entendre, et que l'employeur n'est pas imposable, de sorte qu'il n'a pas de problème de déductions, vous n'y pouvez rien. Rien n'empêche un employeur de verser à un employé plus que ce qu'il devrait toucher pour une année donnée, en particulier quand il s'agit d'organismes non imposables comme les commissions scolaires, les municipalités ou les universités. Tous ces gens-là font toutes sortes d'arrangements parce qu'ils ne paient pas d'impôt. C'est le vieux problème des avantages sabbatiques: on décide de donner une maison à quelqu'un, mais on attribue une valeur fictive à cette maison. Il est très difficile d'établir la valeur réelle.

M. Fuke: Les dispositions de la loi concernant les conventions de retraite visent les situations où cela va plus loin que cela, où l'argent est confié à un dépositaire et où l'employé a la certitude de le toucher.

Le président: Vous avez en fait couvert les cas où l'argent est effectivement mis de côté et où l'on peut effectuer une retenue de 50 p. 100 et imposer les intérêts etc, sous réserve de remboursement.

Mais si l'on ne met pas d'argent de côté, je ne vois pas comment la loi peut s'appliquer à ces arrangements. Rien n'empêche les gens de s'arranger sous la table si les deux parties sont d'accord et si l'employé est prêt à faire confiance à son employeur.

Cela peut se faire par contrat. Quelqu'un peut conclure un contrat d'emploi en vertu duquel sa succession touchera un certain montant jusqu'à l'an 2010.

M. Layton: Monsieur le président, comme le disait M. McCrossan, quand il s'agit du secteur public, il n'y a pas grand risque. Il ne s'agit pas simplement d'un petit arrangement sous la table. Il s'agit d'un engagement du gouvernement à payer. Serait-il vraiment impossible de préciser dans le texte de la loi, comme le propose M. McCrossan, qu'il s'agit des régimes capitalisés aussi bien que non capitalisés?

M. Fuke: Cette mesure va bien au-delà des paramètres relatifs au transfert de fonds au dépositaire. Par contre, s'il n'y a pas de transfert de fonds, quand l'impôt est-il perçu?

M. Layton: J'ai bien l'impression que les impôts sont perçus une fois par exercice financier, mettons au 31 décembre.

M. McCrossan: La question qui me préoccupe est assez simple. Je trouve que nous sommes beaucoup trop durs à l'endroit des régimes non conformes du secteur privé. Nous trouvons tous, je crois, que les règles sur les conventions de retraite frôlent l'excès. Elles visent à percevoir le maximum d'impôt des paliers de revenu les plus élevés. En outre. . .

[Text]

The Chairman: As a matter of fact, it is in excess of the highest tax bracket.

Mr. McCrossan: Yes, it is in excess of the highest tax bracket under tax reform. It effectively puts these plans out of business for all private-sector employers.

But what you are telling me is that by a simple restructuring, these plans can stay in business for public-sector employers who have the guarantee of being able to tax the money in the future at any time they want. And that bothers me somewhat, obviously. Again, it comes down to an equity issue, because we are saying: We are going out there and we are going to hammer anybody who sets up a pension plan for more than \$60,000; we are just going to stop that. That is against the public interest. But we can allow the exact same thing to happen by simply changing the formula in the public sector.

I do not know how you sell that to... Why should the deputy minister be treated differently from the bank president?

Mr. Farber: Mr. Chairman, the information we have been trying to give you with respect to these compensation arrangements is the situation we are trying to address with respect to those plans which are funded plans. Other types of plans which are now registered pension plans that provide benefits beyond the income levels that Mr. McCrossan is referring to are items that are not dealt with in this legislation, were not proposed to be dealt with in this legislation, but which will be dealt with in the pension reform package, with respect to those plans that must come onside by 1991. Otherwise, they leave themselves exposed to possible revocation.

These are only with respect to the funded plans. It is only with respect to those plans where the employee is assured of the additional funding that is provided by the employer, and does not in any way purport to deal with other plans that are not funded plans. Those plans that are not funded plans, while I can understand the committee's position with respect to the assurance that may be garnered from a school board or a government... school boards change, governments change, pension arrangements change. I as an employee might not be satisfied with that kind of a promise unless I knew it was with a custodian and I had the rights to it. One may not have the rights with just a promise.

This legislation does not deal with that, so I am not sure what more we can answer in that regard.

Mr. Belsher: I agree with Mr. McCrossan that if the private sector is tightened up, there should be nothing left in the public sector that is not consistent with what we are asking in the private sector. Now, is this the vehicle to do that, or is it in the other bill which has been referred to, the pension bill?

[Translation]

Le président: De fait, cela dépasse même le taux supérieur d'imposition.

M. McCrossan: Oui, c'est juste, dans le cadre de la réforme fiscale. Cette recommandation rendrait non viables les régimes de tous les employeurs du secteur privé.

Vous avouez par contre qu'il suffirait d'une simple restructuration pour que survivent les régimes non conformes mis sur pied par des employeurs du secteur public qui sont assurés de pouvoir percevoir des impôts sur ces fonds à leur gré. C'est justement ce qui m'inquiète. Est-ce équitable? Nous annonçons que quiconque osera servir une pension de plus de 60,000\$ aura des comptes à rendre, que nous y mettrons le holà. C'est contraire à l'intérêt commun. Par contre, en modifiant la formule, nous permettons au secteur public d'y aller gaiement.

Il est assez difficile de faire valoir notre point de vue. Comment peut-on prétendre traiter différemment un sous-ministre et un président de banque?

M. Farber: Monsieur le président, nous essayons de vous expliquer de quelle façon les règles sur les conventions de retraite nous permettront de régler le problème que posent les régimes capitalisés. Cette loi ne traite pas—et c'est voulu—des régimes de retraite enregistrés qui versent des pensions supérieures au plafond qu'a mentionné M. McCrossan. Ces régimes seront visés par les propositions de réforme des pensions et devront être conformes aux règles dès 1991, sans quoi leur enregistrement sera révoqué.

Les règles dont nous parlons ne concernent que les régimes capitalisés. Elles ne s'appliquent qu'aux régimes qui garantissent à l'employé les contributions de l'employeur. Je comprends par contre la position du Comité en regard des garanties que peuvent fournir les commissions scolaires ou les gouvernements. Mais n'oubliez pas que ces institutions sont quand même sujettes à changement et que les conventions de retraite ne sont pas immuables. Ainsi, si je travaillais pour une institution semblable, je n'aurais confiance que si l'on m'assurait que mon argent avait été confié à un dépositaire et que mes droits étaient protégés. Je ne serais pas satisfait d'une simple promesse.

Le projet de loi dont nous sommes saisis ne traite pas de cet aspect. Je ne vois donc pas vraiment ce que je peux vous dire de plus.

M. Belsher: Je suis d'accord avec M. McCrossan lorsqu'il dit que si nous resserons les règles pour le secteur privé, nous devons imposer les mêmes contraintes exactement au secteur public. Or je me demande s'il est vraiment opportun de se servir de ce projet de loi pour réaliser cet objectif ou s'il ne vaudrait pas mieux attendre d'en traiter dans le projet de loi sur la réforme des pensions.

[Texte]

Mr. Farber: It is the pension reform bill, which we believe will probably be before this committee, that deals with offside plans. But those plans that are now not offside have until 1991 to come onside. But to the extent that they are offside, they could be revoked.

• 1050

Mr. Minaker: Mr. Chairman, I do not think that is the main issue. The main issue is we are going to tax this one sector right now with this law, and we are not going to do it to the public or crown corporation sector. We are going to let them go merrily on their way doing what they have done before. I think that is the issue.

If we are going to apply these taxes right now to one sector, then why do we not try to get the public sector at the same time?

The Chairman: I think what we ought to do is have further explanation on this matter, or come to grips with it in another way.

Mr. McCrossan, if there is a way to amend the bill, then perhaps you might put your mind to it, and we could put an amendment to one of the clauses involved here, which would somehow tighten it up a bit.

Mr. McCrossan: I think that would be my objective, and I would ask the officials whether there is any way of building the concept of funded or unfunded into this. If they can tell me there is not, then I would like some assurance the plans will be dealt with in the pension legislation, which is supposed to be tabled almost any day now.

If they cannot tell me that it is covered under either the proposed pension legislation or this, then I think would vote against the clause. I think that it would be unreasonable to impose it on the private sector if there are no plans to impose it on the public sector.

Mr. Layton: Unanimous, Mr. Chairman.

The Chairman: Mr. Farber, do you get the message? I think he has made his point, that if we do not do something on the public sector then the view of the committee seems to be that we vote against all these sections. Now what is your answer to this.

Mr. Farber: Mr. Chairman, certainly that is the committee's right. I did get the point. I have been getting the point for the last few minutes.

I can only repeat what I said before. This legislation on retirement compensation arrangements is not designed to deal with unfunded plans. To the extent that the pension reform package deals with offside plans, I believe that those arrangements would be caught under that legislation.

Now, as Mr. McCrossan has indicated, that legislation is pending very shortly. I am not going to say that I am

[Traduction]

M. Farber: Vous devriez être saisis sous peu du projet de loi sur la réforme des pensions qui traitera des régimes non conformes. Mais laissez-moi vous rappeler que les régimes non conformes ont jusqu'à 1991 pour le devenir, sans quoi leur enregistrement pourrait être révoqué.

M. Minaker: A mon avis, monsieur le président, ce n'est pas la question la plus importante. Ce projet de loi a pour but de percevoir des impôts dans un secteur donné, et non pas dans le secteur public ou des sociétés d'État. Nous allons les laisser continuer de faire leur petit bonhomme de chemin comme avant. C'est là question de l'heure, selon moi.

Je me demande pourquoi nous ne profitons pas de cette occasion pour essayer de percevoir les mêmes impôts auprès du secteur public?

Le président: Il serait utile d'obtenir des éclaircissements sur cette situation. Nous pourrions peut-être l'aborder sous un autre angle.

Monsieur McCrossan, vous pourriez peut-être réfléchir à la manière de modifier ce projet de loi. Il devrait être possible de renforcer certaines de ses dispositions.

M. McCrossan: C'est une excellente idée et je vais demander aux fonctionnaires s'il y a moyen d'intégrer la notion de régimes capitalisés ou non dans ce projet de loi. Mais si cela s'avère impossible, il faudrait qu'on nous garantisse que l'on traitera de ce problème dans le projet de loi sur la réforme des pensions qui sera déposé sous peu.

Je vais voter contre l'adoption de cet article s'ils nous informent que cette mesure ne peut être intégrée ni dans le projet de loi dont nous sommes saisis actuellement ni dans celui qui portera sur la réforme des pensions. Il est illogique, selon moi, d'imposer de telles mesures au secteur privé alors que le secteur public est exempté.

M. Layton: Nous sommes unanimes là-dessus, monsieur le président.

Le président: Monsieur Farber, avez-vous compris? Notre collègue nous a bien expliqué sa position. Si les règles ne sont pas resserrées pour le secteur public, le Comité va rejeter toutes ces dispositions. Qu'avez-vous à dire là-dessus?

M. Farber: Monsieur le président, le Comité est libre de faire ce qu'il veut. Cela fait déjà un bon moment que j'ai compris votre position.

Mais je ne peux que réitérer ce que j'ai déjà dit. A savoir que ces articles sur les conventions de retraite n'ont absolument rien à voir avec les régimes non capitalisés. Il conviendrait plutôt de traiter de leur cas dans le projet de loi sur la réforme des pensions.

Et M. McCrossan a raison de souligner que ce projet de loi sera déposé sous peu. Je n'en connais pas vraiment

[Text]

intimately familiar with all the provisions in the pension reform package. It will be a very formidable piece of legislation dealing with all aspects of pension plans, as I am sure Mr. McCrossan is well aware.

So to that extent, I am not sure what other assurance I can give you other than the assurance as to what this piece of legislation was attempting to do.

Mr. Layton: Mr. Chairman, the unblock obviously needed somewhere along the line, that we give approval, recognizing that if it is not reassured in the new legislation coming out, and in some formal. . .

Mr. McCrossan: The proper way to do it, Bob, would be to stand the clauses again, and seek the assurance that it will be dealt with.

Mr. Layton: I was going the other route, Paul, only to put it through, but with the recognition it can obviously be withdrawn in third reading.

Mr. McCrossan: I do not think it can be.

Mr. Layton: The clause cannot be?

Mr. McCrossan: No. You can vote against the bill, or not against the bill in third reading—

Mr. Cassidy: —by an amendment that is filed prior to the report stage being considered. But at that point you are really going to have to get the whole House to understand an issue which is mind-boggling in its complexity.

The Chairman: I think what we ought to do is stand these clauses pending the further clarification by the department, if that is possible, Mr. Farber.

Mr. Farber: Could you just give us again the wording of the assurance that you want with respect to what will be dealt with in the pension reform package, because I believe we can get that assurance. I almost believe I can give it to you right now, but I want to just check it very quickly with one of our technical experts.

The Chairman: What would satisfy you?

Mr. McCrossan: My concern is that public sector offside plans will be caught on these retirement compensation agreement provisions whether they are funded or whether they are not funded.

• 1055

Mr. Farber: We will endeavour to get that answer right away. The question is posed in such a way that a very direct answer is going to be a little difficult, as I am sure Mr. McCrossan appreciates. I think we can answer the question of the funded plans; we can answer the question of how we are going to treat unfunded plans. We are also going to try to answer the question as to what happens with regard to those off-side plans and the revocation procedures.

[Translation]

toutes les dispositions. Je puis cependant vous assurer qu'il s'agit d'un projet de loi fort exhaustif qui traite de tous les aspects des régimes de retraite. M. McCrossan n'est pas sans le savoir.

Je ne vois pas du tout ce que je pourrais vous dire de plus pour vous rassurer. Je ne puis que vous parler des objectifs que nous visons dans ce projet de loi.

M. Layton: Monsieur le président, nous pourrions peut-être donner notre approbation et si le nouveau projet de loi ne traite pas des régimes non capitalisés, il faudra à ce moment-là. . .

M. McCrossan: La meilleure chose à faire, Bob, c'est de reporter l'étude de ces articles et d'obtenir une garantie quelconque que l'on traitera de cet aspect dans le nouveau projet de loi.

M. Layton: J'avais pensé à autre chose, Paul. Nous pourrions en effet adopter cet article sous réserve de le retirer en troisième lecture.

M. McCrossan: Je ne crois pas que cela soit possible.

M. Layton: De retirer cet article?

M. McCrossan: Non. Le Règlement prévoit qu'en troisième lecture, on ne peut qu'adopter ou rejeter un projet de loi.

M. Cassidy: Il y a toujours moyen de déposer un amendement avant l'étape du rapport. Il faut cependant être en mesure d'expliquer à la Chambre une situation drôlement complexe.

Le président: Il est préférable, selon moi, de reporter ces articles jusqu'à ce que nous ayons obtenu des éclaircissements du ministère, si c'est possible, bien entendu. Monsieur Farber.

M. Farber: Dites-nous au juste quelle sorte de garantie vous voudriez obtenir pour ce qui concerne le projet de loi sur les régimes de retraite. Je suis persuadé que nous pourrions l'obtenir sans trop de difficulté. Je pourrais peut-être même vous la donner dès maintenant, mais je tiens d'abord à consulter un de nos experts.

Le président: Quelle sorte de garantie voulez-vous?

M. McCrossan: Je veux que les régimes non conformes du secteur public soient assujettis aux règles sur les conventions de retraite, qu'ils soient capitalisés ou non.

M. Farber: Nous ferons notre possible pour vous transmettre ces renseignements dans les plus brefs délais. M. McCrossan est bien placé pour savoir que ce ne sera pas facile. Mais nous devrions être en mesure de vous expliquer ce qu'il en est pour les régimes capitalisés, les régimes non capitalisés ainsi que les régimes non conformes et les procédures de révocation.

[Texte]

Mr. McCrossan: May I just raise one more issue on this while we are answering it, because I do not want to have it come back tomorrow and then raise the question so it comes out of the blue?

This has to do with multinational employers, because it is my understanding that multinational employers are also able to set up off-side plans where they register the maximum funds. Let us say they are a Canadian-U.S. employer and possibly an international union, a non-taxable employer in the States, where they pay the maximum pension in Canada, the \$60,000, and then they will set up a pension plan for an amount above our \$60,000 limit in the States so the employee in Canada is entitled to a \$100,000 pension. It is just another variation on the theme of a non-taxable employer providing a pension benefit greater than the legal maximum.

The Chairman: How can you stop that? What is illegal about that? The employer is paying it out of another jurisdiction and it is processed in another jurisdiction.

Mr. McCrossan: The question has to do with deductibility of expenses and whether tax should indeed be levied on a benefit that is earned in Canada, payable in Canada, and in effect accruing to the Canadian operation but sheltered offshore.

The Chairman: Paid offshore you mean.

Mr. McCrossan: No. It is not necessarily even paid offshore.

The Chairman: It is paid from offshore sources, though.

Mr. Fuke: Tax is payable when the employee receives the money—

Mr. McCrossan: Yes, that is right.

Mr. Fuke: —when the Canadian resident receives it, but you are asking about tax being paid now as the benefit accrues to the—

Mr. McCrossan: Precisely.

Mr. Fuke: —Canadian resident.

Mr. McCrossan: The same point as with a Canadian private sector employer who is not currently taxable: this establishes a withholding for the contribution.

The Chairman: You are going to have the answers to these things. Can we get them as quickly as possible?

Mr. Cassidy: On a point of order, perhaps I can ask for some co-operation from the committee, but we have a difficult situation where Bill C-87, which is also a finance bill, is coming up in the House in about six or seven minutes, and I happen to be responsible for that bill in the House. I wanted to make a few comments about clause 10, but if we keep going on clause 6 then I will not be able to.

[Traduction]

M. McCrossan: Puis-je vous poser encore une question dans ce contexte? Il vaut mieux, à mon avis, la poser dès maintenant et éviter ainsi de vous prendre par surprise demain.

Ma question concerne les employeurs multi-nationaux. Je crois savoir que rien ne les empêche de constituer des régimes non conformes dans lesquels ils versent les montants maximaux. Prenons le cas d'un employeur Canado-américain ou encore, d'un syndicat international, c'est-à-dire un employeur non-imposable aux États-Unis. Il pourrait verser la pension maximale de 60,000\$ au Canada et constituer ensuite aux États-Unis un régime d'une valeur supérieur à notre limite, de sorte que l'employé au Canada aurait droit à une pension de 100,000\$. C'est une simple variation sur le thème de l'employeur non imposable qui accorde à ses employés une pension supérieure à la limite autorisée.

Le président: Mais comment empêcher cela? Ce n'est pas vraiment illégal. L'employeur effectue et traite les paiements dans un autre pays.

M. McCrossan: Ma question porte sur la déductibilité des dépenses et l'opportunité de percevoir des impôts sur des avantages gagnés et payables au Canada mais qui s'accumulent, à l'abri du Fisc, à l'étranger.

Le président: Vous voulez dire que ces avantages sont versés à l'étranger.

M. McCrossan: Non. Il ne s'agit pas uniquement d'avantages versés à l'étranger.

Le président: Mais ils proviennent d'une source étrangère.

M. Fuke: Les impôts sont perçus lorsque l'employé touche son argent.

M. McCrossan: C'est juste.

M. Fuke: Lorsque le résident canadien touche son argent. Mais vous voulez savoir si l'on perçoit à l'heure actuelle des impôts sur des avantages accordés à . . .

M. McCrossan: Tout juste.

M. Fuke: . . . un résident canadien.

M. McCrossan: La même chose vaut pour un employeur canadien du secteur privé qui n'est actuellement pas imposable: il y a retenue d'impôt sur ses contributions.

Le président: Vous devrez nous fournir des éclaircissements sur tous ces points. Allez-vous faire vite?

M. Cassidy: J'invoque le Règlement. Je vais demander au comité de faire preuve d'un peu d'indulgence. Nous faisons face à un petit problème ici. En effet, la Chambre sera saisie du bill C-87 dans six ou sept minutes. Et il s'adonne que je suis responsable de ce projet de loi à la Chambre. J'ai quelques observations à faire au sujet de l'article 10, mais si nous nous acharnons sur l'article 6, je n'y arriverai jamais.

[Text]

The Chairman: I am in the hands of the committee. Do I have the consent of the committee to go to clause 10?

Miss Nicholson: I have a further question on this one.

The Chairman: I do not have the consent. Miss Nicholson, on this issue.

Miss Nicholson: When the officials are looking into the matters raised by Mr. McCrossan, I wonder if we could also have information on doing it the other way around. Supposing that all these clauses that refer to pensions were extracted from this bill and introduced with the pension bill, what would be the implications? Could we have a brief statement on that at the same time as the officials come back with the information requested by Mr. McCrossan?

The Chairman: Does that sound possible, Mr. Farber?

Mr. Farber: The provisions affecting registered compensation arrangements come into force now. The pension reform provisions have a number of different dates into the future, including on side by 1991. So it is a question of these tax deferral types of arrangements that virtually could go on until the pension reform package will be passed.

• 1100

Miss Nicholson: What I would like, Mr. Chairman, is a statement a little later on that if we proceed in that direction what the implications would be in terms of revenue to the Crown, and so on and so forth.

An hon. member: It could be dramatic, right?

Mr. Farber: It could. I do not know what the dollar implications are, but it would virtually be sanctioning these offside plans until the pension reform package was brought into force. So all these arrangements we have highlighted in the Ways and Means Motion, as well as the bill that is under consideration before you now, could presumably go ahead and get the tax deferral benefits.

The Chairman: In any event, can you come back and give us a statement on this issue?

Mr. Farber: That is a statement, Mr. Chairman. There is not much more to say. Those plans can go ahead; they can be funded. Anything can happen to them and the tax deferral arrangements would just continue on. This was designed to stop those arrangements which have effectively been stopped. This would re-open it and allow people to engage in these kinds of arrangements up to now and into the future.

[Translation]

Le président: Je m'en remets entièrement au comité. Le comité est-il d'accord pour que nous traitions maintenant de l'article 10?

Mme Nicholson: J'ai encore une question à poser au sujet de cet article.

Le président: Je n'ai donc pas le consentement du comité. Madame Nicholson, vous avez la parole pour traiter de cette question.

Mme Nicholson: J'aimerais savoir si les fonctionnaires pourraient se renseigner, dans le cadre de leurs recherches pour répondre aux questions de M. McCrossan, sur une façon de procéder. Qu'arriverait-il si nous retranchions de ce projet de loi toutes les dispositions concernant les pensions et si nous les intégrions à l'éventuel projet de loi sur la réforme des pensions? Les fonctionnaires pourraient-ils répondre à cette question en même temps qu'à celle de M. McCrossan?

Le président: Cela vous semble-t-il faisable, monsieur Farber?

M. Farber: Les dispositions concernant les conventions de retraite entrent en vigueur dès maintenant. Les dispositions sur la réforme des pensions sont assujetties à un autre échéancier dont la date limite de 1991 pour rendre tous les régimes conformes. Il faut donc envisager la possibilité que ces conventions permettant le report des impôts continuent d'exister jusqu'à ce que le programme de réforme des pensions prennent force de loi.

Mme Nicholson: Monsieur le président, je pense qu'il serait utile que nous sachions à combien s'élèveront les pertes fiscales, si nous retenons la solution que j'ai proposée.

Une voix: Elles pourraient être considérables n'est-ce pas?

M. Farber: C'est vrai. Je n'ai aucune idée de ces montants. Mais il me semble que cela équivaldrait à autoriser les régimes non conformes jusqu'à ce que le programme de réforme des pensions prennent force de loi. Tous ces stratagèmes dont il est question dans la Motion des voies et moyens ainsi que dans le projet de loi dont vous êtes actuellement saisi, pourraient encore être utilisés et certains continueraient de bénéficier des reports d'impôts.

Le président: Quoiqu'il en soit, allez-vous pouvoir nous fournir des éclaircissements sur la question?

M. Farber: Vous savez, monsieur le président, on ne peut pas en dire tellement plus. Ces régimes continueront d'exister. Ils peuvent être capitalisés. Quoi qu'il en soit, les conventions entraînant des reports d'impôts pourront continuer d'exister. Ces dispositions ont été conçues pour mettre fin à ces conventions et le but est atteint. La proposition ne servirait qu'à les ressusciter et à permettre aux contribuables de s'en prévaloir encore un certain temps.

[Texte]

Miss Nicholson: It has generally been regarded in this country as rather desirable social policy to encourage people to be prudent and plan for their retirement. How did the decision get taken, which is implicit in what we have before us, that \$60,000 is the optimum retirement amount that people should be aiming at, and that the state should not encourage people in any way to plan a retirement income larger than that? I am not criticizing the decision, I am merely asking how it was arrived at, what kind of forecasts it is based on, what kind of assumptions there are about future inflation. Somebody who is perhaps 30 today and who lives until 90, how is the decision made that he or she should not be encouraged to plan for a retirement income higher than \$60,000 a year?

Mr. Farber: Mr. Chairman, when we get the answer to the other questions, I will give the hon. member the precise formula that was used in arriving at that. It is based on items like the average industrial wage—

The Chairman: Two and a half times the average industrial wage, is it not?

Mr. Farber: I believe that was it, but I do not have the exact formula.

Clauses 6 and 7 allowed to stand.

Clause 3 as amended agreed to.

On clause 10.

The Chairman: I have amendments on clause 10, but I think Mr. Cassidy asked permission of the committee to make a statement on clause 10. With the permission of the committee, I am going to ask Mr. Cassidy to make a statement before I ask Miss Nicholson to make her amendment.

Some hon. members: Agreed.

Mr. Cassidy: Thank you, Mr. Chairman. It might be appropriate for us to consider the three amendments together and then even to plan that the votes be taken all together at a particular time. But that of course depends on the committee.

As I understand it now there are two amendments. Miss Nicholson's amendment would effectively allow an IBC to be established anywhere in the country, and Mr. McCrossan's amendment would allow IBCs to the extent of only \$100,000 of shelter from profits that would otherwise be payable and that any additional profits earned by a bank on international banking business above \$100,000 would be taxable in the normal way.

I appreciate the committee's assistance, and maybe Mr. Farber will be available to answer some questions in a few minutes as well.

I have thought a great deal about this issue, as I think the whole committee has. I recall, to those members of the committee who have not recently joined us from Montreal and from Vancouver, that the committee has

[Traduction]

Mme Nicholson: Le gouvernement a toujours encouragé les Canadiens à faire preuve de prudence et à préparer leur retraite. Comment avez-vous décidé de ce plafond de 60,000\$? Pourquoi le gouvernement n'encouragerait-il pas les contribuables à se constituer un régime de retraite plus important? Je ne critique pas ici votre décision. J'aimerais simplement comprendre comment vous êtes arrivé à ce chiffre, sur quelles prévisions vous vous êtes fondés et quelles hypothèses vous avez formulées au sujet de l'éventuel taux d'inflation. Comment avez-vous pu décider qu'un contribuable aujourd'hui âgé de 30 ans mais dont l'espérance de vie peut aller jusqu'à 90 ans ne pourra pas viser plus de 60,000\$ de revenu par année à la retraite?

M. Farber: Monsieur le président, je m'engage à fournir à M^{me} la députée toutes les précisions qu'elle souhaite au sujet de la formule que nous avons utilisée en même temps que nos réponses à vos autres questions. Nous nous sommes fondés sur le salaire industriel moyen et...

Le président: Ne s'agit-il pas de deux fois et demie le salaire industriel moyen?

M. Farber: Il me semble, mais je ne connais pas parfaitement la formule.

Les articles 6 et 7 sont réservés.

L'article 3 tel que modifié est adopté.

L'article 10

Le président: J'ai ici en main des amendements à l'article 10. Mais M. Cassidy nous a demandé l'autorisation de faire une déclaration au sujet de cet article. Si le comité est d'accord, je vais accorder la parole à M. Cassidy avant de demander à M^{me} Nicholson de déposer son amendement.

Des voix: D'accord.

M. Cassidy: Je vous remercie, monsieur le président. Il serait peut-être utile que nous reprenions ces trois amendements ensemble et que nous les mettions aux voix ensemble à un moment donné. La décision appartient, bien entendu, au comité.

Si j'ai bien compris, nous avons ici deux amendements. L'amendement de M^{me} Nicholson permettrait la création d'un centre bancaire international à n'importe quel endroit du Canada. L'amendement de M. McCrossan autoriserait les centres bancaires internationaux à réaliser des bénéfices exonérés d'impôt à hauteur de 100,000\$, tout montant supplémentaire étant imposable aux termes de la loi.

Je remercie le comité de son aide. Je poserai quelques questions à M. Farber tout à l'heure.

J'ai bien réfléchi à cette question, comme mes collègues aussi, sans doute. Je tiens à signaler, pour la gouverne des membres du comité qui ne viennent pas tout juste de se joindre à nous de Montréal ou de

[Text]

given a good deal of thought to this too and, in the end, wound up making a recommendation in the report of April 26 or April 28—I think it was our sixth report—that was in fact negative to the IBC proposal Mr. Wilson had been considering. I do not believe that anything in the legislation in Bill C-64 has changed that, nor has there been new information to change that either.

• 1105

The argument made from Vancouver and Montreal has been job creation and attraction of financial business. I think it is fair to say that the overwhelming weight of the testimony we had, including the testimony from the Department of Finance itself, was that this is not an economic development measure in terms of job creation.

The best estimate the bankers gave us was about 25 jobs and that of the Department of Finance was perhaps 11 jobs. I recall the committee's own finding on jobs said:

The job impact of the IBC proposal appears modest. Most probably, the banks will only transfer existing positions and will certainly not create many jobs.

This is what the committee established. Our chairman in rather more colourful language said on May 1 or May 2 that Mr. Wilson can proceed if he wants, but:

It would seem to some that he would spend a lot of his reputation.

The chairman then went on to say:

What we will get out of it is squat and it will cost us an arm and a leg, a bucket of blood.

Mr. Blenkarn went on to say the proposal should be labelled the "Bankers' Relief Act" because it would allow the banks to rip off the tax system. Mr. Chairman, I am sorry that some unfortunate lapses of ideology on your side prevents you from joining yourself to the NDP.

What I fear is that the members who have joined the committee... and quite clearly there has been a deliberate decision to put enough votes on the committee so that these clauses Mr. Wilson is proposing will pass, despite the contrary recommendation of the Standing Committee on Finance and Economic Affairs. I think this action jeopardizes this committee in its ability to work together. The committee has shown on such things as tax reform that, despite party differences, we can work effectively together. I am sorry to see that the government has not accepted this, has ignored the spirit of parliamentary reform and has decided to pack the committee in order to have it go otherwise.

Mr. Layton: Mr. Chairman, members of both the other parties support this.

[Translation]

Vancouver, que nous avons beaucoup réfléchi à la question. Et au bout du compte, nous avons décidé de formuler, dans notre sixième rapport, je crois, du 26 ou du 28 avril, une recommandation, qui s'inscrivait en faux contre le projet de M. Wilson. Aucune des dispositions du projet de loi C-64 ni aucun des renseignements dont nous avons été saisis depuis nous ont fait changer d'avis.

Vancouver et Montréal ont fait valoir la création d'emplois et la possibilité de mousser l'activité financière. Et si nous tenons compte de tous les témoignages que nous avons reçus jusqu'à maintenant, y compris ceux des représentants du ministère des Finances, cette mesure ne favorisera en rien l'expansion économique en termes de création d'emplois.

Selon les banquiers, les centres bancaires internationaux entraîneraient la création d'à peine 25 emplois, et selon le ministère des Finances, onze peut-être. D'ailleurs le comité a lui-même conclu:

Les Centres bancaires internationaux ne sont pas susceptibles de créer beaucoup d'emplois. Les banques se contenteront fort probablement de transférer des postes déjà existants.

C'est là l'opinion du comité. Et notre président a déclaré dans des termes beaucoup plus colorés vers le 1 ou 2 mai que M. Wilson fera bien ce qu'il veut, mais:

Il risque de ternir sa réputation.

Notre président a ajouté:

Nous n'allons rien en tirer et ça nous coûtera les yeux de la tête et la peau des fesses.

M. Blenkarn a même ajouté qu'il faudrait peut-être parler de la «Loi sur l'aide aux banquiers» puisqu'elle autoriserait les banques à voler le Fisc. Monsieur le président, je trouve regrettable que quelques petits problèmes d'idéologie vous empêchent de vous joindre au parti néo-démocrate.

Je crains que les membres qui viennent se joindre au comité... et j'ai bien l'impression qu'on essaie de faire pencher les voix en faveur des dispositions de M. Wilson, en dépit des recommandations concrètes du Comité permanent des finances et des questions économiques. Cette stratégie risque de nuire beaucoup à notre esprit de collaboration. Il me semble que nous avons déjà prouvé, dans le contexte de la réforme fiscale, entre autre, que nous étions en mesure de collaborer étroitement, en dépit de nos allégeances politiques différentes. Je regrette que le gouvernement ait décidé de passer outre à l'esprit de la réforme parlementaire et d'utiliser sa forte majorité pour faire pencher les votes en sa faveur.

M. Layton: Monsieur le président, il y a des députés de chacun des deux autres partis qui appuient ces dispositions.

[Texte]

Mr. Cassidy: The members who are voting for this and Mr. Wilson, as the chairman said, are taking a measure on behalf of Vancouver and Montreal bankers and not on behalf of people in Vancouver and Montreal.

I would be prepared to support a tax measure that helped people who are unemployed in those two cities. The unemployment rate in Vancouver is around 9% or 9.5%. In Montreal, it is about 11% or 11.5%. They have serious economic development problems, but a handful of jobs is not going to make a difference.

Since the money that could be attracted to IBCs will be money that has to be invested offshore and since the nature of the proposal is such that the money can only be put into very high quality paper and certainly not into entrepreneurial types of investments, it means there will be no benefit from capital made available to Canadian enterprises that would not have been available otherwise.

In terms of the costs, Mr. Chairman, the Montreal spokespeople estimated a cost of about \$1 million. The Department of Finance officials told me and the committee that, because only offshore business is involved, there is by definition no cost. However, they offered no evidence to back this claim. This was made by the same department that underestimated the cost of the scientific research tax credits by about twenty-fold.

I put against it the evidence the committee put forward. Firstly, we were told in New York that as much as \$200 million in tax was being lost because of the IBC arrangements in the State and city of New York. Secondly, we developed very detailed information with respect to the Bahamian branches of the Canadian chartered banks, which showed that, using the tax haven, the banks would have had a surplus or an excess of Canadian tax payable over foreign taxes paid or foreign tax credit of \$32 million in 1985 and of \$20 million in 1984.

It does not take a lot of imagination to see that if the banks have \$32 million of tax liability in a tax shelter, presumably this is tax liability they were paying, because those are branches and those branch profits have to be consolidated into the parent company. Then if they can put the appropriate amount of loans and deposits into an IBC in Canada, as opposed to having it in the Bahamas for mere bookkeeping change, then in 1985 it appears they could have saved about \$32 million worth of tax and in 1984 about \$20 million worth of tax. In other words, there are substantial tax costs connected with this, and the economic development benefits appear to be of the order of perhaps a dozen or a couple of dozen jobs.

[Traduction]

M. Cassidy: M. Wilson et ceux qui votent en faveur de cette mesure agissent dans l'intérêt des banquiers de Vancouver et de Montréal, comme l'a dit notre président, et pas dans celui de la population de ces deux centres urbains.

Je suis tout à fait en faveur des mesures fiscales susceptibles d'aider les chômeurs dans ces deux centres urbains. Le taux de chômage s'élève à 9 ou 9,5 p. 100 à Vancouver et à 11 ou 11,5 p. 100 à Montréal. Ces deux centres éprouvent de graves difficultés sur le plan de l'expansion économique et une poignée d'emplois ne fera pas une grande différence.

Comme les fonds attirés dans ces centres bancaires internationaux devront être investis à l'étranger et servir à l'achat de valeurs sûres plutôt que de placements à risque, cela veut donc dire qu'il y a bien peu de chance que ces nouveaux fonds soient investis dans des entreprises canadiennes.

Monsieur le président, les représentants de Montréal ont parlé de coûts de l'ordre de un million de dollars. Les représentants du ministère des Finances ont dit, à moi ainsi qu'aux autres membres du comité, qu'il ne devrait pas y avoir de coût, par définition, puisqu'il s'agit de transactions étrangères. Mais ils n'avaient aucune preuve. N'oublions pas qu'il s'agit des fonctionnaires de ce même ministère qui a évalué le coût des crédits d'impôt à la recherche scientifique à vingt fois moins qu'ils ne se sont élevés dans la réalité.

Vous pouvez toujours comparé ces calculs avec ceux du comité. On a commencé par nous dire à New York que les centres bancaires internationaux de cet État et de la municipalité de New York avaient entraîné des pertes de l'ordre de 200 millions de dollars. Nous avons également compilé énormément de données concernant les succursales aux Bahamas des banques à charte canadiennes. Selon ces données, les abris fiscaux auraient permis aux banques de bénéficier de crédit pour impôts étrangers de l'ordre de 32 millions de dollars en 1985 et de 20 millions de dollars en 1984 en raison de l'écart entre les impôts payables au Canada et les impôts payés à l'étranger.

Il n'est pas nécessaire d'être très intelligent pour comprendre que si les banques ont pu mettre 32 millions de dollars à l'abri de l'impôt, cela veut dire que c'est un montant qu'elles auraient été obligées de payer car ce sont là des succursales et les profits des succursales doivent en principe s'ajouter à ceux de la société-mère. Si les banques à charte peuvent inscrire suffisamment de prêts et de dépôts dans un centre bancaire international au Canada plutôt que de les comptabiliser aux Bahamas, elles auraient alors pu économiser environ 32 millions de dollars d'impôts en 1985 et 20 millions de dollars en 1984. En d'autres termes, cette mesure comporte des coûts fiscaux énormes alors que le seul avantage sur le plan de l'expansion économique semble être la création d'une dizaine ou d'une vingtaine d'emplois tout au plus.

[Text]

[Translation]

• 1110

I think we have a real problem with this particular measure, and that is why I have decided, on behalf of my party, to vote against it. Although I would certainly seriously consider tax measures if they were targeted to help develop the financial services industry in major centres such as Vancouver and Montreal, and if they had a demonstrable and positive effect in terms of employment and economic development at a cost that could be justifiable. That is not the case in this particular case.

I do note that when Mr. MacIntosh of the Canadian Bankers' Association came before the committee, he indicated the chartered banks had not asked for this legislation, and he questioned whether much employment would be generated in Canada if the IBCs were established. I note that no one who came before the committee was able to provide us with reasonable estimates of the probable effects on employment or on economic development.

I also note, Mr. Chairman, that a great deal of the shift has been because of financial deregulation. There has been an increasing concentration of banking and financial activity in Toronto at the expense of Vancouver and Montreal. Now the government, which is proposing IBCs, has been actively moving in the field of deregulation. I am sure that has cost far more hundreds, if not thousands, of banking jobs in Vancouver and Montreal, and now they say we will turn around and give you an IBC that will be worth a handful of jobs.

I believe the Bank of Canada, on the direction of the government, has the power to sit down with the chartered banks and tell them it is just not on, that they increasingly take economic activity away from major areas like Vancouver and Montreal, from major regions like the far west of our country and Quebec. They take all those dollars and suck them down into Toronto, and then engage in the international banking business primarily from Toronto.

I believe we would do far better, in fact, if the banks were forced to confront the fact that they are not playing fair with their customers, their clients and everybody else in those important regions of the country, and they should be doing far more in terms of having a better spread of business.

That is why, when this matter came up earlier, I suggested there should be a task force set up by the federal government in conjunction with the banks, the chambers of commerce, the Labour Councils or representatives of the community, municipal authorities, etc., in Montreal and Vancouver, either separately or in unison, to develop strategies to develop and enhance the finance and banking

Cette mesure nous pose donc un grave problème et c'est pourquoi j'ai décidé de voter contre, au nom de mon parti. Je serais tout à fait disposé à voter en faveur de mesures fiscales qui seraient destinées à améliorer l'industrie des services financiers dans les grands centres urbains comme Vancouver et Montréal et surtout si elles favoriseraient manifestement la création d'emplois et le développement économique à un coût justifiable. Mais ce n'est pas du tout le cas ici.

Je tiens à signaler que M. MacIntosh de l'Association Canadienne des banquiers a déclaré devant le comité que les banques à charte n'avaient jamais réclamé cette loi. Il nous a également dit qu'il se demandait si la création de centres bancaires internationaux contribuerait vraiment à la création d'emplois au Canada. Je tiens également à signaler qu'aucun des témoins venus comparaître devant le comité n'a été en mesure de nous fournir une estimation raisonnable de l'incidence éventuelle de cette mesure sur l'emploi ou sur l'expansion économique.

Je tiens également à mentionner, monsieur le président, que cette mesure est en grande partie attribuable à la déréglementation du secteur des finances. On a remarqué une concentration sans cesse croissante des activités bancaires et financières à Toronto au détriment de Vancouver et de Montréal. Le gouvernement qui promouvoit la création de centres bancaires internationaux met en oeuvre la déréglementation. Je suis persuadé que ces mesures ont entraîné la perte de centaines, sinon de milliers d'emplois dans les banques de Vancouver et de Montréal. Et il nous propose en retour la mise sur pied de centres bancaires internationaux susceptibles de ne créer qu'une poignée d'emplois.

Si je ne m'abuse, la Banque du Canada est habilitée à rencontrer, à la demande du gouvernement, les représentants des banques à charte et de leur dire de cesser de transférer leurs activités de grands centres comme Vancouver et Montréal, des grands centres de l'ouest et du Québec. Elles concentrent tous leurs fonds à Toronto et exercent leurs activités bancaires internationales à partir de cette même ville.

Il est grand temps selon moi de faire comprendre aux banques que leur façon de procéder est très injuste tant pour leurs clients que pour l'ensemble du pays et qu'il serait bon qu'elles commencent à répartir un peu mieux leurs activités.

C'est pourquoi j'ai demandé, lorsqu'on a traité de cette question plus tôt, que le gouvernement fédéral constitue un groupe de travail de concert avec les banques, les chambres de commerce, les syndicats ou les représentants de la collectivité, les autorités municipales et d'autres encore à Montréal et à Vancouver, soit séparément ou ensemble, pour mettre au point des stratégies pour

[Texte]

activities with a view to creating more employment and more international business.

I do not think we should rule out federal assistance or incentives, but at the same time I do not believe that the IBC proposal here will deliver what it promises. I find it particularly ironic that not only does the Finance Minister apparently reject this committee's proposal for a tax that would get a reasonable revenue from the banks, but he is turning around and once again giving an undefined but large tax subsidy to the banks in return for questionable benefits, if any benefits will be received from this at all.

The overwhelming sense the people across the country have given me is that it is wrong that banks only pay 2% of their income in tax, they should be paying far more. It is just not fair that ordinary workers pay a lot more on their income than the average bank in Canada.

Those are the comments I wanted to make, Mr. Chairman. As a consequence, we would vote against Miss Nicholson's amendment which would extend IBCs to the whole country. If IBCs do not make sense and are basically just a gift to the banks in two communities, then that is the case even if they are extended elsewhere. I think people in Montreal and Vancouver are justified in saying wait a minute, this would just simply confirm what is already happening in terms of the concentration of business in Toronto.

• 1115

We would vote for Mr. McCrossan's amendment not because we really endorse the idea of IBCs but because an IBC that costs only \$100,000 per bank as a maximum is preferable to an IBC that could cost tens of millions of dollars per bank. But even if Mr. McCrossan's amendment were to be adopted, we would still vote against the main motion in clause 10 for the concept of IBCs.

In conclusion, I want to say to my friends in Vancouver and Montreal, with whom I have had a number of discussions on this, I do understand their concerns and I agree with them, and I believe our proposal that a task force, with the federal government, with the bankers, with the chambers of commerce, with municipalities and so on, which can look at other ways of seeking to ensure economic development and employment in those communities on a much greater scale than would have come from the IBCs would be a solid and constructive proposal, which I hope they would accept positively.

Miss Nicholson: Mr. Chairman, on a point of order, the committee agreed unanimously to allow Mr. Cassidy to speak so he could go to the House, even though we have amendments before us to be dealt with. But I think

[Traduction]

donner de l'expansion au secteur des finances et des activités bancaires dans le but de créer plus d'emplois et de stimuler les activités internationales.

Il ne faut pas exclure la possibilité pour le fédéral d'apporter son aide ou d'offrir des mesures incitatives. Mais je doute que les centres bancaires internationaux produisent les résultats escomptés. Je trouve assez paradoxal que le ministre des Finances rejette notre recommandation d'un impôt raisonnable sur les profits des banques et qu'il leur accorde, au contraire, d'autres subventions fiscales importantes en échange d'avantages douteux, s'il en est.

Les contribuables Canadiens semblent trouver déplorable que les banques ne paient que 2 p. 100 d'impôts sur leur revenu et estiment qu'elles devraient en verser beaucoup plus. C'est très injuste quand on pense qu'un simple travailleur paie plus d'impôts qu'une banque au Canada.

Voilà ce que j'avais à dire, monsieur le président. Cela étant dit, je voterai, au nom de mon parti, contre l'amendement de M^{me} Nicholson qui autorise la création de centres bancaires internationaux dans tout le pays. Si cette mesure est incensée et représente un beau cadeau aux banques de deux grands centres urbains, cela ne sert pas à grand-chose d'en autoriser la création ailleurs au Canada. Je trouve que les gens de Montréal et de Vancouver ont raison de s'opposer à cette mesure qui ne fait que confirmer une grande tendance actuelle qui est la concentration des transactions à Toronto.

Nous voterions en faveur de l'amendement de M. McCrossan, pas parce que nous appuyons sans réserve l'idée de centres bancaires internationaux mais plutôt parce qu'un centre bancaire international qui ne coûterait que 100,000 par banque serait préférable à un CBI qui coûterait des dizaines de millions de dollars par banque. Or, même si l'amendement de M. McCrossan devait être adopté, nous voterions néanmoins contre l'article 10 portant création de centres bancaires internationaux.

Enfin, je tiens à dire à mes amis de Vancouver et de Montréal, avec qui j'ai discuté à maintes reprises de la question, que je comprends leurs préoccupations et que j'accepte leurs arguments. Je crois toutefois que notre suggestion de créer un groupe de travail qui se composerait de représentants du gouvernement fédéral, des banques, des chambres de commerce, des municipalités, etc. et qui chercherait d'autres moyens, plus efficaces que les CBI, de favoriser l'expansion économique et la création d'emplois dans ces collectivités est bien trouvée et constructive et j'espère qu'ils accueilleront favorablement.

Mme Nicholson: Monsieur le président, j'invoque le Règlement. Le Comité a accepté à l'unanimité de permettre à M. Cassidy de prendre la parole pour qu'il puisse ensuite se rendre à la Chambre, malgré le fait que

[Text]

Mr. Cassidy rather took advantage of that situation when he then went on to criticize my amendment, which I have not yet even moved or spoken to, and to assume he knew the reasons for it. So I would suggest he withhold his criticisms of my amendment until he hears my reasons for moving it.

The Chairman: I think that is fair enough.

Mr. Cassidy: Mr. Chairman, I stand corrected. I cannot withdraw what I said. But I am sure my colleague, Mr. Parry, will respond in more detail to the specifics on this made by Miss Nicholson.

Mr. Layton: Mr. Chairman, I am prepared to wait until the amendments are put and then to respond to what Mr. Cassidy has had to say, just to correct the record.

Mr. Farber: Mr. Chairman, we would like to say for the record—I am going to ask my colleague to speak to it—on some of the tax figures that were quoted by Mr. Cassidy as being in the nature of a loophole or a tax advantage the banks would get in the order of \$32 million annually, I think he was saying. . .

Mr. Brian J. Ernewein (Senior Official, Legislation Division, Tax Policy and Legislation Branch, Department of Finance): I believe that reference was to the figures tendered by Revenue Canada in their letter showing that from the Nassau branch there were x dollars of taxable income, x dollars of foreign tax credit, and the difference between the Canadian tax payable overall and the amount available as a foreign tax credit was in the order of \$32 million. That, I guess, does not take you very far. First of all, that figure does not break down the income of the Nassau or Bahama branches into that derived from activities that qualify under this proposal and income from those that do not. It does not state which foreign taxes are associated or attributable to either type of income. In that respect, it is our understanding that there is a much greater proportion of foreign taxes attributable to income that qualifies under the IBC proposal and that therefore would offset in whole or in very large part any Canadian tax payable on that income.

Finally, it does not identify which expenses, such as loan loss reserves or other, if I may refer to them as such, head office expenses should be allocated to that income, which would reduce it and the consequent Canadian tax payable.

The Chairman: Have you managed to have a chat with A.B. MacKay, who wrote in the *International Banker* of two months ago of the tax losses anticipated as a result of the international banking centres?

Mr. Ernewein: Mr. Farber and I have spoken with Mr. MacKay before. In fact, I spoke with him less than a week

[Translation]

nous ne nous étions pas encore prononcés sur les amendements dont nous étions saisis. Or, j'estime que M. Cassidy a abusé de notre bonne volonté lorsqu'il s'est permis de critiquer mon amendement, alors que je ne l'avais pas encore déposé ni commenté, et lorsqu'il a présumé connaître les raisons de cet amendement. Je l'inviterais donc à taire ses critiques jusqu'à ce que j'ai eu l'occasion d'exposer les raisons qui m'amènent à proposer cet amendement.

Le président: Ça me semble tout à fait raisonnable.

M. Cassidy: Monsieur le président, je me le tiens pour dit. Je ne peux toutefois pas défaire ce qui est fait. Je suis certain que mon collègue, M. Parry, répondra point par point aux arguments invoqués par M^{me} Nicholson.

M. Layton: Monsieur le président, je suis disposé à attendre que l'amendement soit déposé avant de répondre à M. Cassidy et avant de rétablir les faits.

M. Farber: Monsieur le président, nous aimerions commenter publiquement—et je vais demander à mon collègue de le faire—certains des chiffres cités par M. Cassidy lorsqu'il a dit que les banques pourraient profiter d'une échappatoire ou du moins d'un avantage fiscal à hauteur de 32 millions de dollars par année; il disait, je crois. . .

M. Brian J. Ernewein (haut fonctionnaire, Division de la législation, Direction de la politique et de législation de l'impôt, ministère des Finances): Je crois qu'il faisait allusion aux chiffres cités dans la lettre de Revenu Canada selon laquelle une succursale de Nassau avait x dollars de revenu imposable et x dollars de crédit pour impôts étrangers et toujours selon laquelle la différence entre le total de l'impôt payable au Canada et le montant du crédit pour impôts étrangers s'établissait à 32 millions de dollars environ. Cela ne veut pas dire grand chose. D'abord, il nous est impossible de savoir quelle part du revenu des succursales de Nassau ou des Bahamas provient d'activités admissibles aux termes de cette proposition et d'activités qui ne sont pas admissibles. Il ne nous permet pas de déterminer quelle part des impôts étrangers sont attribuables à l'une ou l'autre catégorie de revenus. D'ailleurs, nous croyons comprendre que le gros des impôts étrangers sont attribuables à des revenus admissibles pour un centre bancaire international et qu'il y aurait donc très peu d'impôt canadien à payer sur ces revenus.

Enfin, ce total ne permet pas de savoir quelles dépenses—réserves pour pertes sur prêts ou dépenses de la société-mère, si je puis m'exprimer ainsi—doivent être imputées à ces revenus, réduisant d'autant l'impôt canadien à payer.

Le président: Avez-vous eu l'occasion de vous entretenir avec A.B. MacKay, qui décrivait, il y a deux mois, dans le *International Banker* les pertes fiscales prévues en raison de la création de centres bancaires internationaux?

M. Ernewein: M. Farber et moi-même avons déjà eu l'occasion de parler à M. MacKay. De fait, je lui ai parlé il

[Texte]

ago. I should say that when Mr. Farber and I spoke about it some time ago, we did not come to the conclusion. . . I thought we were in agreement with Mr. MacKay that Canada does not gather very much tax from this source, and therefore there would not be any great tax losses.

I was speaking to him a week ago. The point did not arise, though.

• 1120

Miss Nicholson: I am not at all convinced an IBC will bring economic benefits to Vancouver or Montreal, but I think the loss to the Treasury, or the potential for loss, is considerable, and I will be speaking more about that later.

However, since the government is determined to go ahead with this legislation, although there is no evidence that it is going to do anything except cost money, at least I think they should remove the discrimination. Somehow, in the face of all the facts, the Boards of Trade of Vancouver and Montreal have been convinced that there is a potential benefit for them here, and therefore the government has stacked this committee with members who will vote for it. The government is quite determined, clearly, to pass the bill, but since they are determined to pass it I think there should at least be equity. No other country in the world which has established an IBC has limited it regionally. The legislation is always there to allow for an IBC, and then any bank in any area which qualifies and meets the basic criteria can become one.

The way the government has handled this, by setting region against region, by creating a situation where the Province of Ontario is threatening to put in its own tax incentives, the Governments of B.C. and of Quebec are also considering further tax incentives. . . At a time when the government has a White Paper before us which is supposed to mean reform, they are also taking steps which will encourage provinces to start tax wars.

So as a measure to reduce the divisiveness, accepting the fact that I think clause 10 is undesirable and should be defeated, but I recognize it will not be. . . in an effort to minimize at least the divisiveness of it, I would propose that clause 10 be amended by striking out line 13 on page 12 and substituting the following:

the Province of British Columbia or anywhere else in Canada as a branch

I am moving this amendment, Mr. Chairman, in a spirit of damage-limitation—that while clause 10, I think, is going to create unbelievable headaches, at least by removing some of the regional discrimination one may limit the damage a trifle.

[Traduction]

y a moins d'une semaine. Je me dois de vous dire que, quand M. Farber et moi-même en avons discuté il y a quelque temps déjà, nous n'avons pas conclu. . . Je croyais que nous nous étions entendu pour dire que le Canada ne subirait pas d'importantes pertes d'impôt du fait qu'il perçoit très peu d'impôt sur ces revenus.

Je lui ai parlé il y a une semaine. Toutefois, nous n'avons pas abordé cette question.

Mme Nicholson: Je ne suis pas convaincue qu'un CBI apportera des avantages économiques à Vancouver ou à Montréal. Par contre, je pense que cela pourrait coûter très cher au Trésor et j'y reviendrai un peu plus tard.

Puisque le gouvernement est décidé à aller de l'avant avec cette proposition, même si rien ne permet de croire qu'elle entraînera autre chose que des coûts, j'estime qu'il devrait tout au moins éviter qu'elle ne soit discriminatoire. Pour une raison qui m'échappe, les chambres de commerce de Vancouver et de Montréal sont convaincues, contre toute raison que la création de centres bancaires internationaux pourra leur apporter des avantages, et le gouvernement a nommé avec partialité des membres du comité qui voteront en faveur de la proposition. Le gouvernement est manifestement décidé à adopter ce projet de loi et, cela étant le cas, j'estime qu'il devrait au moins le rendre équitable. Aucun autre pays au monde n'a établi des centres bancaires internationaux selon des critères purement régionaux. Ils ont tous adopté des lois permettant la création de centres bancaires internationaux en vertu desquelles toute banque admissible, de quelque région que ce soit, peut obtenir le statut à condition de satisfaire à certaines exigences minimales.

Le gouvernement, en créant de la rivalité entre les régions, en créant une situation où la province de l'Ontario menace d'accorder ses propres encouragements fiscaux, où les gouvernements de la Colombie-Britannique et du Québec envisagent eux aussi d'accorder des allègements fiscaux additionnels. . . Le gouvernement a déposé un Livre blanc qui promet la réforme mais il prend en même temps des décisions qui inciteront les provinces à se livrer la guerre avec comme arme l'impôt.

Ainsi, convaincue du fait que l'article 10 est indésirable et devrait être rejeté, mais consciente du fait que nous ne saurions y compter, je propose, afin de minimiser tout au moins la rivalité qu'il suscite, que l'article 10 soit modifié par substitution à la ligne 9, page 12, de ce qui suit:

«Vancouver (Colombie-Britannique) ou dans n'importe quelle région au Canada com-»

Monsieur le président, je propose cet amendement dans l'espoir de limiter les dégâts. L'article 10 créera des difficultés inimaginables mais j'espère limiter un tant soit peu les dommages en supprimant en partie la discrimination de nature régionale.

[Text]

If I could also speak to the point Mr. Minaker raised yesterday, somebody suggested that by expanding the number of IBCs there might be an increased cost to the Crown, and therefore this could be on the Royal prerogative. I cannot see that, Mr. Chairman. There is only a finite amount. Since clause 10 relates to deposits from or loans to non-residents, there is only a finite amount of that kind of business which will be done in Canada at IBCs. The number of IBCs, whether you have two or three, whether we have one on Mr. Warner's reserve as well as the one in Vancouver and Montreal, does not effect the total volume of business. Therefore there can be no change to the Royal prerogative. So I would suggest to you, Mr. Chairman, that the motion is in order.

The Chairman: I am accepting it as in order. Is there any further discussion on the motion?

Mr. Layton: Excuse me. Can I understand it a little better, Mr. Chairman? I guess it is not something that is clear.

The Chairman: Well, the motion is that presumably IBCs could be established anywhere in Canada.

• 1125

Mr. Layton: In response to the remarks made prior to the amendment by our colleague from the New Democratic Party and also to the proposal that has now been presented to us, to broaden the base so that IBCs could be created throughout the country—

Miss Nicholson: No, I did not say that.

Mr. Layton: Well, anywhere in Canada?

Miss Nicholson: That qualifies, of course. I am not suggesting a rash of them. Another problem is that we do not have the regulations yet under this clause, but my aim is that whatever criteria are set out would be criteria other than geographic.

Mr. Layton: My remarks then will address themselves to the fact that there was a geographic background to this, as I stated in our review yesterday. There was a proposal of some seven or eight years ago from the community that I am a part of, Montreal, and it has since been endorsed and adjoined in its interest by the community of Vancouver. These two cities represent a kind of international link to the world for Canada, and we are ready to invest in and create this facility subject to its being competitive with similar centres around the world.

The activities that are anticipated, which will be generated in these two centres, are not presently being undertaken in Canada. They are activities which are currently going on in centres around the world, as we learned in our study. In fact, this committee made a

[Translation]

J'aimerais revenir à un point soulevé hier par M. Minaker ou du moins par quelqu'un qui disait que l'augmentation du nombre de CBI pourrait entraîner une augmentation des coûts pour le Trésor et toucherait donc la prérogative royale. Je n'y crois pas, monsieur le président. La fourchette est assez étroite. Puisque l'article 10 mentionne expressément les dépôts de non-résidents et les prêts qui leur sont consentis, le nombre de transactions de ce genre qui seront effectuées dans des CBI au Canada est limité. Le volume total de ces transactions restera le même qu'il y ait deux ou trois CBI, qu'il y en ait un dans la réserve de M. Warner en plus de ceux de Vancouver et de Montréal. Par conséquent, cela n'empiète en rien sur la prérogative royale. J'estime donc, monsieur le président, que la motion est recevable.

Le président: Elle est recevable. Y-a-t-il d'autres commentaires sur la motion?

M. Layton: Excusez-moi. J'aimerais obtenir des éclaircissements, monsieur le président. Ce n'est pas une question facile à comprendre.

Le président: La motion prévoit que des CBI pourraient être créées n'importe où au Canada.

M. Layton: Pour répondre aux remarques formulées par notre collègue du Nouveau parti démocratique avant que ne soit présenté l'amendement, ainsi qu'à la proposition qui nous est maintenant soumise, et qui vise à élargir la portée de l'article de façon à ce qu'il soit possible de créer des centres bancaires internationaux dans tout le Canada. . .

Mme Nicholson: Ce n'est pas ce que j'ai dit.

M. Layton: Disons à n'importe quel endroit du Canada?

Mme Nicholson: C'est une nuance. Je ne veux pas dire qu'il faudrait les faire proliférer. Il y a un autre problème, c'est que nous n'avons pas encore de règlement dans le cadre de cet article, mais je voudrais que les critères qui y seront définis soient autre chose que des critères géographiques.

M. Layton: Je vais donc développer une argumentation montrant que tout ceci se place sur une toile de fond géographique, comme je l'ai dit lors de notre examen d'hier. La collectivité dont je suis originaire, Montréal, a présenté une proposition il y a sept ou huit ans, et la communauté de Vancouver est venue y ajouter son propre intérêt. Ces deux villes sont une sorte de lien international du Canada avec le reste du monde, et nous sommes prêts à investir dans un tel centre et à le créer, à condition qu'il soit concurrentiel avec des centres analogues du reste du monde.

Les activités qui résulteraient de la création de ces deux centres n'existent pas actuellement au Canada. Ce sont des activités que l'on trouve déjà dans d'autres centres internationaux, comme notre étude nous l'a montré. En fait, notre Comité a examiné la situation en profondeur et

[Texte]

major review of this and reported, but not as stated by my colleague from the New Democratic Party. In actuality, if one cares to read the report, while there were some reservations, the committee supported the idea of IBCs. However, it was recognized that to be effective, in the opinion of the committee, they should be broadened. That was at the discretion of the Minister, and to this moment, he has not proposed to broaden the operations of IBCs.

But the key message is that they are not presently handled in Canada, that this would open Canadian banks to becoming repositories for deposits and sources for loans by non-residents. The effect in New York City—which many of us will remember perhaps with different memories, because it was a busy two days we spent there—showed that there was considerable activity in international banking in New York City, and that while there was no finite number of jobs created there were an uncertain number of jobs created, depending on how many activities each bank undertook.

The support for the measures which are in front of the committee today, for this particular legislation and the creation of international banking centres, is not a government-only support; it is not a Montreal-and-Vancouver-only support. It comes from—to the surprise, I am sure, of the members of the opposition—from all parties. There has been specific support expressed at this committee by members of each party, and there have been some reservations expressed by each party.

So let us not get the idea that Vancouver and Montreal alone have some special status or some special role. This is a function of government that involves all parties and all regions. I think there is a recognition that in Canada we have to respond to the needs of regions, because we are different from one corner of this country to the other. Everything cannot be in one place, and in particular the economic activity cannot be restricted to one corner of Canada.

I would be expressing my views against any amendments. The government does have legislation here that responds to the initiatives from the regions, and I think it should be endorsed and passed quickly. Thank you, Mr. Chairman.

Miss Nicholson: Mr. Chairman, would Mr. Layton accept a brief question?

Mr. Layton: Certainly.

Miss Nicholson: Mr. Layton probably knows that in the past Edmonton has been interested in an IBC, and currently Calgary and Windsor are interested.

Is he saying that should not be considered?

[Traduction]

a rédigé un rapport, mais qui ne dit pas ce qu'a déclaré notre collègue du Nouveau parti démocratique. En réalité, si l'on prend la peine de lire ce rapport, on verra qu'en dépit de certaines réserves, le Comité était favorable à l'idée de créer des centres bancaires internationaux. Il estimait cependant que pour les rendre efficaces, il faudrait prévoir pour ces centres une gamme d'activités élargie. Cela relève de la discrétion du ministre, et jusqu'à présent, il n'a pas proposé d'élargir les activités de ces centres bancaires internationaux.

Mais l'idée essentielle, c'est que ces activités n'existant pas au Canada à l'heure actuelle, on permettrait aux banques canadiennes de recevoir les dépôts de non-résidents et de leur accorder des prêts. New York—et nous n'avons peut-être pas tous les mêmes souvenirs à ce sujet, car les deux jours que nous y avons passé ont été abondamment remplis—a enregistré une croissance considérable en matière d'activités bancaires internationales, et la création d'un certain nombre d'emplois, bien qu'on ne sache pas exactement combien, suivant les activités entreprises par les banques.

Le gouvernement n'est pas le seul à appuyer les mesures soumises aujourd'hui au Comité dans le cadre de ce projet de loi et portant création de centres bancaires internationaux; elles ne recueillent pas non plus simplement de l'appui de Montréal et de Vancouver. En fait, à la surprise, j'en suis sûr, des députés de l'opposition, je dirais que ce sont tous les partis qui appuient ces mesures. Des députés de tous les partis ont expressément fait part à notre Comité de leur appui à cette initiative, de même que chaque parti a aussi émis certaines réserves.

N'allons donc pas croire qu'on accorde à Vancouver et à Montréal uniquement un statut ou un rôle particulier. Il s'agit d'une décision du gouvernement à laquelle se rallient tous les partis et toutes les régions. Je crois que nous admettons tous qu'il faut répondre aux besoins des régions au Canada, car notre pays porte la marque de la diversité d'un océan à l'autre. On ne peut pas tout concentrer en un seul endroit, et en particulier on ne peut pas concentrer toute l'activité économique dans une seule région du Canada.

Je suis donc opposé aux amendements. Le gouvernement nous présente ici un projet de loi qui prolonge les initiatives des régions, et qui devrait à mon avis être approuvé et adopté rapidement. Merci, monsieur le président.

Mme Nicholson: Monsieur le président, M. Layton accepterait-il un brève question?

M. Layton: Certainement.

Mme Nicholson: M. Layton doit savoir qu'Edmonton a autrefois manifesté un certain intérêt pour la création d'un centre bancaire international, de même qu'actuellement Calgary et Windsor.

Veut-il dire qu'il ne faudrait pas étudier ces propositions?

[Text]

Mr. Layton: I am advancing the idea that the special characteristics and initiatives of Montreal, from 1978 or 1979 to today, and of Vancouver, from 1982 until today, justifies a response by the government in supporting the regional development of those two communities.

• 1130

Mr. McCrossan: Mr. Chairman, I have two questions for the expert witnesses. In Miss Nicholson's statement she stated that to the best of her knowledge no other country had restricted IBCs geographically to one or two cities in setting them up. To the knowledge of the officials, is that statement correct?

My second question has to do with taxation in Canada. My question is: is there any other example of a federal income tax measure which affects only one or two cities, as opposed to regions? I understand we have regional industrial development programs. We have a Cape Breton initiative and so on. Is there anything else that is restricted to one city or two cities? Is there any precedent for this in Canadian income tax law?

Mr. Ernewein: With respect to the first point, I am not aware of other countries which at the federal level have at this time established an incentive in this area for one or two areas. Of course, you have examples such as New York and other states that do it at the state level, and it is of course limited to that state.

I am given to understand though that in France they have a similar measure under consideration which would establish an economic zone or an international financial area. I am not sure if it is limited to a city or to a particular region, but in any event, an area, a small part of the country.

Mr. McCrossan: In France this is establishing Lyon, as well as Paris, as being a recipient city for an international banking centre.

Mr. Ernewein: I am not sure whether Paris is included in that.

Mr. McCrossan: Yes.

Mr. Ernewein: On the second point, as far as whether or not there are other examples in the bill where other regions are selected, none comes to mind that refers to a particular city. I guess I would like to point out that this refers to the metropolitan areas of Montreal and Vancouver.

Mr. McCrossan: Since you have just raised that, there was no definition of the metropolitan area of Montreal or Vancouver in clause 10. Can I ask whether these are defined in legislation anywhere else?

Mr. Ernewein: No, but there are terms used. . . For example, I think in section 6 of the act, the term "metropolitan area" is used for the purpose of determining whether employees are entitled to claim expenses, out of town expenses, if you will.

[Translation]

M. Layton: Je dis simplement que les caractéristiques spéciales et les initiatives manifestées par Montréal de 1978 ou 1979 à maintenant, ainsi que par Vancouver, de 1982 à maintenant, justifient un appui du gouvernement au développement régional de ces deux communautés.

M. McCrossan: Monsieur le président, j'ai deux questions à poser à nos brillants témoins. M^{me} Nicholson a déclaré qu'au mieux de sa connaissance, aucun autre pays ne limitait géographiquement les centres bancaires internationaux à une ou deux villes seulement. Les spécialistes sont-ils d'accord avec cette affirmation?

J'ai une deuxième question qui porte sur la fiscalité au Canada: existe-t-il d'autres exemples de mesure fédérale concernant l'impôt sur le revenu qui ne s'applique qu'à une ou deux villes par opposition à des régions? Je sais bien que nous avons des programmes de développement industriel régional. Nous avons un programme d'initiative au Cap Breton etc. Existe-t-il d'autres mesures qui soient limitées à une seule ou à deux villes? Existe-t-il des précédents dans la législation fiscale du Canada?

M. Ernewein: Pour ce qui est de la première question, je ne connais pas d'autre pays qui ait jusqu'à présent limité au niveau fédéral ce genre de stimulant à une ou deux régions seulement. Évidemment, il y a des exemples, comme l'État de New York ou d'autres encore, où cela ne dépasse pas naturellement les limites de l'État.

Je crois cependant savoir qu'une disposition analogue est actuellement à l'étude en France pour créer une zone économique ou un secteur financier international. Je ne sais pas si c'est limité à une ville ou à une région particulière, mais en tout cas il s'agit d'une petite partie du pays.

M. McCrossan: La France a choisi d'établir un centre bancaire international à Lyon et à Paris.

M. Ernewein: Je ne suis pas sûr que Paris soit inclus.

M. McCrossan: Si.

M. Ernewein: Pour ce qui est de la deuxième question, à savoir s'il y a d'autres exemples de choix de régions dans la loi, je ne me souviens pas qu'il soit question d'une ville particulière. J'aimerais préciser qu'il s'agit ici des zones métropolitaines de Montréal et de Vancouver.

M. McCrossan: À ce propos, il n'y a pas de définition de la zone métropolitaine de Montréal ou de Vancouver à l'article 10. Cette définition figure-t-elle ailleurs dans le projet de loi?

M. Ernewein: Non, mais ce sont des termes qu'on utilise. . . Par exemple, je crois qu'à l'article 6 de la loi, on parle de la «zone métropolitaine» pour déterminer si des employés ont le droit de demander le remboursement de leurs frais s'ils sont en déplacement à l'extérieur.

[Texte]

Mr. McCrossan: So there is some definition. For example, how far does the metropolitan area of Montreal extend? Certainly for overnight expenses off the island. Is the south shore a metropolitan area?

Mr. Ernewein: I am not that familiar with the city of Montreal.

Mr. McCrossan: Well, what is the metropolitan area of Montreal? Saint Jean and Richelieu, is that Metropolitan Montreal? It is 20 miles outside. What does this clause mean?

Mr. Ernewein: I think the definition of "metropolitan"—

Mr. McCrossan: Mrs. Collins' riding, is that Metropolitan Vancouver?

Mr. Ernewein: I believe the definition of metropolitan is... there is a definition of the term, and it refers to the business area or the urban area. I do not know the geography, or I am not familiar with the geography of Montreal or Vancouver, to comment as to which falls within and which does not.

Mr. McCrossan: So who defines it? Is it the city itself, or the federal government? Who defines what is the metropolitan area?

Mr. Ernewein: One would rely upon the rules of interpretation in the same way that with many other words that are in the act, you would have to rely upon dictionary definitions or the like to determine the precise ambit of the term.

Amendment negatived: nays, 6; yeas, 2.

• 1135

The Chairman: The next amendment I have is from Mr. McCrossan.

Mr. McCrossan: I would like to explain the purpose and rationale behind my amendment.

I did not bring copies of the committee *Minutes of Proceedings and Evidence* for everyone but perhaps I can read out the relevant portions to the members of the committee and also to the officials to refresh their minds, because Mr. Cassidy dealt with some of the points earlier.

We have had conflicting evidence as to what the potential tax cost of this measure could be. That evidence came from our visit to New York City and also from the independent expert we retained, Mr. MacKay.

The Department of Finance disputes the potential tax cost of this measure and, in particular, questions were asked of the Department of Finance about the potential tax cost. I will read the transcript.

This was the meeting on February 4. The witness was Mr. Dodge, the Assistant Deputy Minister for the Tax

[Traduction]

M. McCrossan: Donc, il y a une définition. Par exemple, jusqu'où s'étend la zone métropolitaine de Montréal? En tout cas, pour les frais de logement, en dehors de l'île. Est-ce que la zone au sud du fleuve fait partie de la zone métropolitaine?

M. Ernewein: Je ne connais pas assez bien Montréal.

M. McCrossan: Bon. Qu'entend-on par zone métropolitaine de Montréal? Est-ce que Saint-Jean et Richelieu en font partie? C'est à 20 milles à l'extérieur. Que signifie cet article?

M. Ernewein: Je pense que la définition de «métropolitain»...

M. McCrossan: Est-ce que la circonscription de M^{me} Collins fait partie du Vancouver métropolitain?

M. Ernewein: Je pense que la définition... Il y a une définition de ce terme, et elle s'applique à la zone d'activités commerciales ou à la zone urbaine. Je ne connais pas très bien la géographie de Montréal ou de Vancouver, et je ne suis donc pas en mesure de vous dire ce qui fait ou ce qui ne fait pas partie de cette zone métropolitaine.

M. McCrossan: Alors qui la définit? La ville ou le gouvernement fédéral? Qui définit ce qu'on entend par zone métropolitaine?

M. Ernewein: Je pense qu'on s'en remet aux règles d'interprétation exactement comme pour de multiples autres expressions utilisées dans la loi, et qu'il faut se reporter aux définitions des dictionnaires ou à ce genre de définitions pour déterminer exactement ce qu'on entend par ce genre de terme.

L'amendement est rejeté par 6 voix contre 2.

Le président: Le prochain amendement est de M. McCrossan.

M. McCrossan: J'aimerais expliquer l'objet et la raison d'être de mon amendement.

Je n'ai pas apporté d'exemplaire des *Procès-verbaux et témoignages* du Comité pour tout le monde, mais je peux peut-être lire les parties pertinentes pour rafraîchir la mémoire des membres du Comité et des fonctionnaires, car M. Cassidy a traité de certains de ces points tout à l'heure.

Nous avons reçu des témoignages contradictoires quant au coût fiscal potentiel de cette mesure. Ces témoignages provenaient de notre visite à New York, et également de l'expert-conseils que nous avons engagé, M. MacKay.

Le ministère des Finances contestent le coût fiscal potentiel de cette mesure et, en particulier, on a interrogé le ministère des Finances quant au coût fiscal potentiel. Je lis la transcription.

Il s'agit de la réunion du 4 février. Le témoin était M. Dodge, sous-ministre adjoint, Direction de la politique et

[Text]

Policy and Legislation Branch. The question from Mr. Warner is:

You stated that the actual cost is going to be negligible and close to zero. Could we assume that we could put a cap of \$1 million? Would that be close to zero?

Mr. Dodge: That would be considerably higher than I would have thought of as negligible.

Mr. Warner: So it could be a cap of maybe \$100,000?

Mr. Dodge: That would be getting down more into the range of what we think would be the outside. We are talking about a very small number.

Mr. Warner: That is the absolute maximum, total cost of administrative expenses by National Revenue, Inspector General of Banks, and also the leakage or potential leakage of tax revenue.

Mr. Dodge: That is absolutely correct.

The Department of Finance is clearly on record as stating that the maximum tax cost of these international banking centres could not conceivably exceed \$100,000. What my amendment proposes is to allow \$100,000, not for the country, but for each and every bank that sets up an international banking centre.

In effect, my amendment allows for profits or tax loss some 70 times larger than what the tax department has testified as being the maximum possible cost of this measure. I assume that the Department of Finance officials do indeed stand behind their estimates of their tax costs and therefore would be prepared, as would all members of the committee, to endorse my amendment since it is clearly in line with their own testimony.

I would like to hear from the officials. Do they stand behind their testimony? If they do, do they think that an amendment which provides 70 times the leeway that they have suggested they need, would be acceptable to them.

Mr. Ernewein: Mr. Chairman, it has been stated by Mr. Dodge that the tax loss from this is not expected to be significant. However, I guess they are having some difficulty drawing a connection between tax cost and the amendment that is proposed here which refers to \$100,000 of net income.

Net income may not have any real connection with tax if one has been subject to foreign tax on a great deal of income. It is fair to say that a large number of the banks, or at least the major players in the international banking area or field, will have income in excess of \$100,000 in their offshore operations.

However, that does not lead to the conclusion; in fact, I have given some reasons earlier today suggesting why there will be no tax payable.

[Translation]

de la législation de l'impôt. La question de M. Warner est la suivante:

Vous avez dit que le coût véritable sera négligeable, presque nul. Peut-on tabler sur une limite de 1 million de dollars? Cela serait-il presque nul?

M. Dodge: Non, c'est beaucoup élevé que ce que j'appellerais négligeable.

M. Warner: Vous songiez davantage à 100,000\$, je suppose?

M. Dodge: Ce serait davantage de cet ordre et ce serait un maximum. Ce sera minime.

M. Warner: Les dépenses administratives totales du ministère du Revenu, de l'inspecteur général des banques, de même que le manque-à-gagner potentiel du point de vue des recettes ne dépasseraient donc pas ce maximum, n'est-ce pas?

M. Dodge: Absolument.

Le ministère des Finances a déclaré publiquement que le coût fiscal maximum de ces centres bancaires internationaux ne pourrait pas dépasser 100,000\$. Ce que mon amendement propose, c'est de permettre 100,000\$, non pour le pays, mais pour chacune des banques qui établit un centre bancaire international.

En fait, mon amendement permet des bénéfices ou une perte fiscale qui s'établit à environ 70 fois le coût maximum possible de cette mesure selon le témoignage du ministère. Je suppose que les fonctionnaires du ministère des Finances maintiennent son estimation des coûts fiscaux et seraient donc prêts, comme tous les membres du Comité, à appuyer mon amendement puisqu'il va manifestement dans le sens de leurs propres témoignages.

J'aimerais savoir ce qu'en pensent les fonctionnaires. Maintiennent-ils leurs témoignages? Si oui, pensent-ils qu'un amendement qui prévoit 70 fois la marge dont ils ont indiqué qu'elle leur est nécessaire, leur serait acceptable?

M. Ernewein: Monsieur le président, M. Dodge a déclaré que la perte fiscale ne devrait pas être importante. Toutefois, je crois qu'ils ont une certaine difficulté à établir un lien entre le coût fiscal et l'amendement proposé ici, qui mentionne 100,000\$ de revenu net.

Il se peut qu'il n'y ait aucun lien réel entre le revenu net et l'impôt dans le cas où l'on est assujéti à un impôt étranger sur un revenu considérable. Il est juste de dire qu'un grand nombre de banques, ou au moins les principaux acteurs de la scène bancaire internationale, auront un revenu dépassant 100,000\$ dans leurs entreprises de l'étranger.

Toutefois, cela ne mène pas à cette conclusion; en fait, j'ai expliqué tout à l'heure pourquoi aucun impôt ne sera payable.

[Texte]

Mr. McCrossan: This is not offshore operations. This is specifically international banking centres in Canada.

Mr. Ernewein: Offshore operations which we are hoping to attract to Canada.

Mr. McCrossan: I might point out that there was a typo in the amendment. The amendment should read, as it does in the first two lines, and then in the third line, this net income should have the words after it: "from such international banking centre business in excess of \$100,000 shall be included in computing". So the words "from such international banking centre business" were intended to be there. So it is not the purpose of this amendment to bring in income from outside Canada. We are only looking at taxable income inside the international banking centre, exactly as you have outlined we wanted to do.

• 1140

Mr. Ernewein: We understand that point. Our point is that the banks, or at least the banks that are participating in this type of activity, may have income well in excess of \$100,000 currently offshore. That is the type of business we are hoping to attract to Canada.

However, the fact that they have income in excess of this amount or well in excess of this amount does not lead to the conclusion that any tax is going to be payable or that we are collecting any tax from the income. It is a supposition, but this amendment could very well cause the banks not to use the incentive, because, to the extent they bring their loans to Canada, place these loans in an IBC, and have income in excess of \$100,000, they would be subject to Canadian tax, but if they had done the business offshore, as they are doing now, then they would not have had that tax payable.

The Chairman: The branch business pays taxes today.

Mr. Ernewein: With respect, I am not sure that it pays Canadian tax.

Mr. McCrossan: Yes, it does. It is subject to Canadian tax.

Mr. Ernewein: It is subject to Canadian tax.

The Chairman: Of course, we found that out when we were doing the tax reform hearings. It is subject to, not paid. We made certain recommendations concerning minimum tax because of that.

Mr. McCrossan: This is exactly the point of my amendment. The Department of Finance has stated that this will not cost tax dollars. Taxes are paid on net income.

Mr. Ernewein: They can be paid on net income. You can also obtain deductions from tax payable by foreign tax credit and the like, which is extremely relevant here.

[Traduction]

M. McCrossan: Il ne s'agit pas des activités de l'étranger. Il s'agit expressément des centres bancaires internationaux du Canada.

M. Ernewein: Des entreprises de l'étranger que nous espérons attirer au Canada.

M. McCrossan: J'aimerais souligner qu'il y a une faute dans l'amendement. Il faut ajouter dans la version anglaise, à la troisième ligne, après les mots «net income»: «from such international banking center business in excess of \$100,000 shall be included in computing». Les mots «from such international banking centre business» devaient donc être là. L'amendement ne vise pas les revenus de l'extérieur du Canada. Il s'agit uniquement du revenu imposable dans le cadre du centre bancaire international, exactement comme vous avez dit que vous vouliez le faire.

M. Ernewein: Nous comprenons cela. Ce que nous disons, c'est que les banques, ou du moins les banques qui se livrent à ce genre d'activité, pourraient bien avoir un revenu dépassant nettement 100,000\$ à l'étranger. C'est le genre d'entreprise que nous espérons attirer au Canada.

Toutefois, le fait que leurs revenus dépassent cette somme ou dépassent nettement cette somme ne signifie pas que des impôts seront exigibles ni que nous percevons de l'impôt sur ce revenu. C'est là une hypothèse, mais cet amendement pourrait bien porter les banques à ne pas utiliser la mesure d'encouragement, car si elles amènent leurs prêts au Canada, les placent dans un centre bancaire international et ont un revenu dépassant 100,000\$, elles sont assujetties à l'impôt canadien, par contre les transactions ont lieu à l'étranger, comme maintenant, elles n'ont pas à payer cet impôt.

Le président: Les succursales paient des impôts actuellement.

M. Ernewein: Sauf le respect que je vous dois, je ne suis pas certain qu'elles versent des impôts canadiens.

M. McCrossan: Si, elles le font. Elles sont assujetties à l'impôt canadien.

M. Ernewein: Elles sont assujetties à l'impôt canadien.

Le président: Évidemment, nous avons découvert cela au cours des audiences sur la réforme fiscale. Elles sont assujetties à l'impôt, ce qui ne signifie pas que l'impôt est payé. Nous avons fait certaines recommandations concernant l'impôt minimum en raison de cela.

M. McCrossan: C'est exactement le but de mon amendement. Le ministère des Finances a déclaré qu'il n'y aurait pas de pertes de recettes fiscales. Les impôts sont payés sur le revenu net.

M. Ernewein: Ils peuvent être payés sur le revenu net. On peut également obtenir des déductions de l'impôt à payer au moyen du crédit d'impôt étranger et de mesures semblables, ce qui est tout à fait pertinent ici.

[Text]

Mr. McCrossan: But this clause clearly states that the taxes will be neither increased nor reduced by gains or losses. So the only assumption you can make is that if there is net income inside the IBC then it leads to a reduction in Canadian tax. It does; it has to.

Mr. Ernewein: With respect, I would suggest it does not.

Mr. McCrossan: Just bear with me one more time, because, once again, the department has assured the committee that the tax reform measures it is bringing in for banks will indeed lead to taxes being paid in Canada.

Mr. Ernewein: That does not necessarily mean that those taxes will be paid by the banks in respect of international banking activity that is currently done offshore.

Mr. McCrossan: I understand that exactly. Is this going to cost taxes or not? You have stated. . . Either you are fudging the figures—

Mr. Ernewein: No, we are not fudging the figures. I have to go back to it: there is a distinction between net income and tax payable. You can have significant amounts of net income and calculate gross Canadian tax payable in respect of that net income. That does not lead to the conclusion that there will be tax payable, because you may have foreign taxes that are deductible against that source or, before one even gets to the tax payable, there may be other deductions that are allowed in computing taxable income, such as losses from other years, among other things.

Mr. McCrossan: Oh, I understand losses from other years, and I am quite willing to examine any reasonable amendment to my amendment that would make it clear. For example, I would be quite willing to say "in respect of the first \$100,000 of otherwise taxable net income". But it seems to me clear that there should be a cap, because we have heard estimates of up to \$40 million of tax leakage per year. The department is saying that there will be no cost, and there is obviously a big difference between what our experts have told us and what the department is telling us. Either the department believes in its own figures or it does not. If the department believes in its own figures, then it has to be willing to accept some amendment, some cap. The assistant deputy minister himself said that a cap of \$100,000 on tax expenditures would be generous.

Mr. Ernewein: Expenditure is not net income.

Mr. McCrossan: No, I understand the difference between tax expenditures and excess. I understand it very well. If you have a tax system that collects nothing, obviously it costs you nothing. But you have given a commitment to this committee and to the House that you are going to design an effective system of taxation for

[Translation]

M. McCrossan: Mais cet article énonce clairement que les impôts ne seront ni augmentés ni diminués en fonction des gains ou des pertes. Le seul postulat que l'on peut faire est donc que s'il y a un revenu net à l'intérieur du centre bancaire international, cela aboutit à une réduction de l'impôt canadien, nécessairement.

M. Ernewein: Avec tout le respect que je vous dois, je crois qu'il n'en est pas ainsi.

M. McCrossan: Je vous demande encore un peu de patience. Le ministère a assuré le Comité que les mesures de réforme fiscale touchant les banques auront effectivement pour effet que des impôts seront payés au Canada.

M. Ernewein: Cela ne signifie pas nécessairement que ces impôts seront versés par les banques à l'égard de l'activité bancaire internationale qui se fait présentement à l'étranger.

M. McCrossan: Je comprends bien cela. Y aura-t-il ou non un coût fiscal? Vous avez déclaré. . . Ou bien vous tripotez les chiffres. . .

M. Ernewein: Non, nous ne tripotons pas les chiffres. Je dois revenir à la distinction entre le revenu net et l'impôt exigible. Il est possible d'avoir un revenu net important et de calculer l'impôt canadien brut payable à l'égard de ce revenu net. Cela ne signifie pas que des impôts seront versés, car il peut y avoir des impôts étrangers déductibles ou encore d'autres déductions qui sont permises dans le calcul du revenu imposable, notamment les pertes reportées d'années antérieures.

M. McCrossan: Oh, je comprends les pertes des années antérieures, et je suis tout à fait prêt à étudier un amendement qui préciserait mon amendement. Par exemple, je serais tout à fait prêt à dire «à l'égard des premiers 100,000\$ de revenu net autrement imposables». Mais il me semble évident qu'il devrait y avoir une limite, car nous avons entendu des estimations pouvant atteindre 40 millions de manque à gagner par année. Le ministère dit qu'il n'y aura aucun coût, et il y a évidemment une grande différence entre ce que nos experts nous ont dit et ce que le ministère nous dit. Ou bien le ministère croit ses propres chiffres, ou bien il ne les croit pas. Si le ministère croit ses propres chiffres, alors il doit être prêt à accepter un amendement, une limite quelconque. Le sous-ministre adjoint a dit lui-même qu'un plafond de 100,000\$ pour les dépenses fiscales serait généreux.

M. Ernewein: Les dépenses ne sont pas le revenu net.

M. McCrossan: Non, je comprends la différence entre les dépenses fiscales et l'excédent. Je la comprends très bien. Si vous avez un régime fiscal qui ne perçoit rien, évidemment cela ne vous coûte rien. Mais vous vous êtes engagé envers ce Comité et envers la Chambre à concevoir un régime efficace d'impôt pour les institutions

[Texte]

financial institutions—either the one we have proposed, or the one you are going to design yourself.

As soon as you bring that in, there are tax expenditures. That was fully well known by the committee, and either this thing is one great big gaping loophole or it is not. If the figure is reasonable, then you should have no problem with my amendment.

After all this is \$100,000 to each of the 70 banks registered in Canada. That is \$7 million. That exceeds the \$100,000 you accepted for the whole country by just a wild margin.

Mr. Layton: Mr. Chairman, I would point out to my colleague, Mr. McCrossan, that what he is asking the government to do, by putting a limit on the net income which one of the centres could achieve, is to contradict a basic philosophy we all share—that is, to encourage people to be successful.

Mr. McCrossan: No, no.

Mr. Layton: Excuse me, Mr. McCrossan, let me finish.

Mr. McCrossan: Absolutely. I will let you finish.

Mr. Layton: The point is that if one of our banks or a new bank were to become a success, then this amendment of yours would be a restriction on that success. I find it almost wonderful, surprising certainly, that on the one hand those who oppose this concept of international banking for Vancouver and Montreal make their case on the basis that it is nothing. There are no jobs. I have heard it so often.

Yet I hear these strong arguments saying, whatever you do, let us limit it. There is such a contradiction it becomes ludicrous. I hope—

Mr. Warner: The limitation on tax leakage in cost to the government—

Mr. Layton: There is no suggestion here of tax leakage. If business comes to Canada, which is presently not going on in Canada, and produces taxes in Canada, then how the hell can there be leakage? Excuse me. Is that unparliamentary?

Mr. McCrossan: Foreign tax offsets there.

The Chairman: That is a perfectly proper expression.

Mr. McCrossan: Mr. Chairman, my concern is that during our review on tax reform, we hear testimony that the banks were successful in reclassifying their reserves by country so as to move profits between countries and jurisdictions and to validate their foreign withholding tax.

On this particular type of business it is quite clear the income related to international banking centres will indeed be reported to international banking centres. But

[Traduction]

financières—soit celui que nous avons proposé, soit celui que vous allez concevoir vous-même.

Dès que cela entre en vigueur, il y a des dépenses fiscales. Le Comité le savait bien, et ou bien il s'agit d'une échappatoire énorme, ou bien il n'en est rien. Si le chiffre est raisonnable, vous ne devriez avoir aucun problème à accepter mon amendement.

Après tout, il s'agit de 100,000\$ pour chacune des 70 banques enregistrées au Canada. Cela fait 7 millions de dollars. Cela dépasse très considérablement les 100,000\$ que vous avez acceptés pour l'ensemble du pays.

M. Layton: Monsieur le président, j'aimerais faire remarquer à mon collègue M. McCrossan que ce qu'il demande au gouvernement de faire, en imposant un plafond au revenu net que pourrait réaliser l'un des centres, c'est de contredire une philosophie fondamentale à laquelle nous souscrivons tous—c'est-à-dire qu'il faut encourager la réussite.

M. McCrossan: Non, non.

M. Layton: Je vous demande pardon, monsieur McCrossan, permettez-moi de finir.

M. McCrossan: Parfaitement. Je vous laisserai terminer.

M. Layton: Si l'une de nos banques ou une nouvelle banque devait connaître la réussite, cet amendement imposerait une restriction à cette réussite. Je trouve presque merveilleux et en tout cas étonnant que, d'une part, ceux qui s'opposent à l'idée des centres bancaires internationaux pour Vancouver et Montréal fondent leur argument sur le fait que cela n'est rien. Il n'y a pas d'emplois. J'ai si souvent entendu dire cela.

Pourtant, on soutient fortement qu'il faut imposer une limite. Cette contradiction frise le ridicule. J'espère. . .

M. Warner: La restriction du manque à gagner fiscal pour le gouvernement. . .

M. Layton: Il n'est pas question ici d'un manque à gagner fiscal. Si ces entreprises viennent au Canada de l'étranger, et si elles produisent des impôts au Canada, comment diable peut-il y avoir un manque à gagner? Je m'excuse. Est-ce que cette expression est conforme aux usages parlementaires?

M. McCrossan: Il y a compensation de l'impôt étranger.

Le président: C'est une expression parfaitement acceptable.

M. McCrossan: Monsieur le président, ce qui me préoccupe ici c'est que pendant notre examen de la réforme fiscale, les témoins nous ont dit que les banques réussissent à reclassifier leurs réserves par pays de façon à déplacer les bénéfices entre les pays et les États et à valider leurs retenues fiscales étrangères.

Dans le cas de cette entreprise, il est manifeste que le revenu lié aux centres bancaires internationaux sera effectivement déclaré pour les centres bancaires

[Text]

we have no assurance whatsoever that the expenses relating to international banking centres and the loan loss reserves will be reported to international banking centres. So it makes complete sense for a bank to set up an international banking centre and to over-report its profit inside the centre leading to a concomitant reduction in profits in the Canadian operation.

To put this in scale, we have heard testimony as well from the international banks that the margins on these large sovereign loans run in the order of five basis points. If you look at the testimony we heard, 5 to 10 basis points, 10 at the outside, more likely 5, very thinly priced. . . If we look at the possible transfers in terms of billions of dollars into this country, you arrive at the same sort of thing—the net profit on this business is going to be within the \$100,000 limit according to the banks' own testimony unless they fudge the figures.

What I am concerned about is exactly what we heard in New York City—that the tax cost was estimated to be negligible by the government officials. As soon as they put it in, they found out the tax cost became enormous because the banks were very adept at reclassifying expenses and income to move them into tax shelters.

If you believe your own figures and the banks' testimony as to how thin these margins are, then you should accept this amendment. It is completely consistent with the suggested level of profits the banks can obtain on this business.

Mr. Ernewein: Mr. Chairman, as far as the thin spread on the loans is concerned, we accept this, but you should recognize \$22 billion of these loans were outstanding as of 1984. It does not take much of a spread to make up a significant amount of income. I would add in passing that this does not necessarily lead to Canadian tax.

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The second point in terms of New York is that we spoke to the official. I had some dealings with the person you met down there who gave you this \$100 million figure. I spoke with her after reports of it came back. As I understand it, the \$100 million figure was arrived at by plugging a state tax rate into the amount of income the banks had reported in terms of their IBF activity. It took no account of the fact that had the state tax rate actually applied, the business may have moved offshore more quickly than it ever came.

Mr. Minaker: Our advisers keep talking about this foreign tax which has to be paid. If there is foreign tax charge where they are carrying out this business somewhere else in the world and if they carried it out here in Canada, what if we apply a tax to it? There are different levels of foreign tax in this kind of operation.

[Translation]

internationaux. Mais nous n'avons aucune assurance que les dépenses relatives aux centres bancaires internationaux et les réserves pour mauvaises créances seront déclarées par des centres bancaires internationaux. Une banque aurait intérêt à créer un centre bancaire international et à gonfler le bénéfice du centre pour en arriver à une réduction des bénéfices de l'entreprise canadienne.

Pour donner une idée de l'échelle, nous avons également reçu des témoignages des banques internationales selon lesquelles la marge à l'égard de ces grands prêts s'établit aux environs de 5 points de base. Si vous examinez les témoignages que nous avons entendus, de 5 à 10 points de base, 10 au maximum, plus probablement 5, c'est un prix très faible. . . Si l'on examine le transfert possible de milliards de dollars dans ce pays, on arrive au même genre de chose—le bénéfice net de ce commerce se situera dans la limite de 100,000\$ selon le témoignage même des banques, à moins qu'ils ne tripotent les chiffres.

Ce qui me préoccupe c'est exactement ce que nous avons entendu dire à New York—que les fonctionnaires gouvernementaux estimaient que le coût fiscal était négligeable. Mais dès la mise en oeuvre, ils se sont aperçu que le coût fiscal était énorme parce que les banques étaient très habiles pour reclassifier les dépenses et les revenus et bénéficier d'abris fiscaux.

Si vous croyez en vos propres chiffres et au témoignage des banques sur les marges restreintes, vous devriez accepter cet amendement. Il est tout à fait conforme aux bénéfices que les banques peuvent réaliser sur ce commerce.

M. Ernewein: Monsieur le président, en ce qui touche l'étroitesse de la marge sur les prêts, nous acceptons cela, mais il faut reconnaître que la valeur de ces prêts en vigueur en 1984 atteignait 22 milliards de dollars. Il suffit d'une marge restreinte pour créer un revenu important. J'ajouterais entre parenthèses que ceci n'aboutit pas nécessairement à un impôt canadien.

A New York, nous avons également parlé aux fonctionnaires. J'ai communiqué avec la personne que vous avez rencontrée là-bas et qui vous a donné ce chiffre de 100 millions de dollars. J'ai parlé avec elle après avoir entendu parler de cela. Si je ne m'abuse, le chiffre de 100 millions de dollars a été calculé en appliquant le taux d'impôt de l'État à la somme de revenu que les banques avaient déclarée à l'égard du centre bancaire. Cela ne tenait pas compte du fait que si l'impôt de l'État avait été effectivement appliqué, l'entreprise s'en serait retourné aussi rapidement à l'étranger.

M. Minaker: Nos conseillers parlent souvent de cet impôt étranger à verser. S'il y a un impôt étranger lorsqu'ils font affaires ailleurs dans le monde et s'ils viennent faire affaires ici au Canada, pourrions-nous imposer un impôt? Il y a divers paliers d'impôts étrangers dans des opérations de ce genre.

[Texte]

Mr. Ernewein: The foreign tax applies irrespective of where the business of the bank is located. It is a tax imposed upon the bank or the lender, but it is levied when the interest payment is made by the borrower. Generally it will be subject to variation among tax treaties and the residence of the lender will be the same irrespective of where the actual business of the bank is established.

Mr. McCrossan: I have a question for the officials. Are you saying the reason this does not work and the reason your statements that the tax costs will be less than \$100,000 are true is because we do not have an effective system of taxation in Canada for banks? That is the sole reason.

Mr. Ernewein: No, not at all. We are saying the existence of foreign taxes on such income which the foreign jurisdictions. . . It is the same way Canada does it in terms of loans paid or borrowings from offshore. The foreign jurisdiction gets a first kick at the income paid by its own residence. There is enough tax of this sort to offset the net part one tax liability by the banks in total or in very large part.

In terms of our understanding of this income, the fact that there is not a great deal of tax payable does not mean their income will be less than \$100,000 by any means.

Mr. McCrossan: If \$100,000 net income is transferred from Canadian operations to international banking centre operations, does it not reduce the Canadian taxable income by \$100,000?

Mr. Ernewein: When you say Canadian operations, do you mean activities eligible under the international banking transaction which currently forms part of the Canadian tax base?

Mr. McCrossan: Yes.

Mr. Ernewein: It would decrease taxable income, but it would not necessarily decrease tax payable.

Mr. McCrossan: Would you care to elaborate on that?

Mr. Ernewein: Taxable income is the aggregate of all income subject to taxable income deductions.

Mr. McCrossan: Let us assume the bank is taxable at the moment. If the bank pays any tax, will the transfer of that \$100,000 reduce the Canadian tax?

Mr. Ernewein: If foreign taxes are paid on that income, it would not affect the tax payable.

Mr. McCrossan: If the business is done in Canada, no foreign taxes would be paid on the income.

Mr. Ernewein: Foreign taxes can be paid whether the business is done in Canada or elsewhere if it represents interest perceived from a foreign resident.

Mr. McCrossan: The testimony we heard was that the business done offshore in the islands was taxable as Canadian profits, but was offset by withholding tax credits. The banks went to some elaborate lengths to balance the

[Traduction]

M. Ernewein: L'impôt étranger s'applique où que soit située physiquement la banque. C'est un impôt imposé à la banque ou au prêteur, mais il est perçu au moment où l'emprunteur verse les intérêts. En général, il y a des variations selon les traités fiscaux et la résidence du prêteur est la même quel que soit l'endroit où les affaires de la banque sont effectivement traitées.

M. McCrossan: J'aurais une question à poser aux fonctionnaires. Est-ce que vous dites que si cela ne fonctionne pas et que si les coûts fiscaux seront inférieurs à 100,000\$ c'est parce que nous n'avons pas un régime efficace d'impôt pour les banques au Canada? C'est la seule raison?

M. Ernewein: Non, pas du tout. Nous disons que l'existence d'impôts étrangers sur de tels revenus que les pays étrangers. . . C'est exactement ce que fait le Canada à l'égard des prêts remboursés ou des emprunts à l'étranger. Le pays étranger a priorité sur le revenu de ses propres résidents. Ces impôts suffisent à compenser en totalité ou en très grande partie l'obligation fiscale nette des banques pour la partie I.

Si nous comprenons bien ce revenu, le fait qu'il n'y ait pas beaucoup d'impôt à payer ne signifie nullement que le revenu sera inférieur à 100,000\$.

M. McCrossan: Si 100,000\$ de revenu net sont transférés des entreprises canadiennes au centre bancaire international, est-ce que cela ne réduit pas de 100,000\$ le revenu imposable au Canada?

M. Ernewein: Quand vous parlez d'entreprises canadiennes, entendez-vous les activités admissibles à l'égard des transactions bancaires internationales qui font actuellement partie de l'assiette fiscale canadienne?

M. McCrossan: Oui.

M. Ernewein: Cela diminuerait le revenu imposable, mais cela ne diminuerait pas nécessairement l'impôt à payer.

M. McCrossan: Pourriez-vous développer ce point?

M. Ernewein: Le revenu imposable est l'ensemble du revenu soumis à des déductions du revenu imposable.

M. McCrossan: Supposons que la banque est actuellement imposable. Si elle verse des impôts, est-ce que le transfert de ces 100,000\$ réduira l'impôt canadien?

M. Ernewein: Si des impôts étrangers sont exigibles sur ce revenu, cela n'influence pas l'impôt à payer.

M. McCrossan: Si les transactions sont faites au Canada, aucun impôt étranger n'est versé sur ce revenu.

M. Ernewein: L'impôt étranger peut être payé que les transactions soient faites au Canada ou ailleurs, s'il s'agit des intérêts perçus d'un résident étranger.

M. McCrossan: Selon les témoignages que nous avons entendus, les transactions faites à l'étranger dans les îles sont imposables à titre de bénéfices canadiens, mais sont compensés par les crédits de retenue fiscale. Les banques

[Text]

account so that by the time it got to Canada there would be no tax payable.

We had testimony—I would be happy to drag it out—that some \$20 billion or \$25 billion of business was done in Canada and was not subject to foreign taxes or Canadian taxes because the Canadian banks were not paying taxes.

If a tax system is brought in which applies to Canadian banks and you transfer this business into the IBC, will there be a loss in taxes? It is the same question I asked Mr. Dodge. He said that this will not result in a loss of Canadian taxes.

Mr. Ernewein: I am not sure where that \$25 million figure is coming from. My understanding of the figures is that \$22 billion of loans are booked offshore and a small proportion is booked in Canada. If you are referring to the deposits booked in Canada, they obviously do not raise any income for the bank. In fact, the ones that are in Canada are, to my understanding, devoted to funding domestic loans, not foreign loans.

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Mr. McCrossan: What then does your statement that there will be no taxes lost mean? If this business is done in Canada now and the banks become taxable, what does your statement mean that there will be no taxes lost?

Mr. Ernewein: I did not make a suggestion that there was going to be any business in Canada now that would be shifted to the IBC.

Mr. McCrossan: I think that is fairly clearly on the record as well, and I would be happy to dig that up.

Mr. Ernewein: Certainly our intention is that the legislation is directed at offshore business, not a business already within Canada.

Mr. McCrossan: Is there a grace period for transferring some business over?

Mr. Ernewein: There is a grace period with respect to loans recorded in offshore branches to bring them home.

Mr. McCrossan: That is right. And there is also, as we discussed with the department, the possibility of letting the current loans expire and then renegotiating subsequent loans and replacing the business currently done in Canada in the international banking centre.

Mr. Ernewein: And that begs the question of the extent of business that is already done in Canada—

Mr. McCrossan: Absolutely. That is what it does. That is why we hired Mr. MacKay to indicate what the tax loss

[Translation]

ont eu recours à des moyens compliqués pour équilibrer le compte de sorte que rendu au Canada, il n'y ait pas d'impôt à payer.

Nous avons entendu des témoignages—et il me ferait plaisir de les ressortir—selon lesquels des transactions d'une valeur de 20 à 25 milliards de dollars se font au Canada et ne sont pas assujetties à des impôts étrangers ni à des impôts canadiens, parce que les banques canadiennes ne payaient pas d'impôt.

Si l'on établit un régime fiscal applicable aux banques canadiennes et si ces transactions sont transférées au centre bancaire international, y aura-t-il manque à gagner? C'est la même question que j'ai posé à M. Dodge. Il a déclaré qu'il n'en résulterait pas un manque à gagner au titre de l'impôt canadien.

M. Ernewein: Je ne sais trop d'où provient ce chiffre de 25 millions de dollars. Si je ne m'abuse, des prêts d'une valeur de 22 milliards de dollars sont transigés à l'étranger et une petite proportion est transigée au Canada. Si vous parlez des dépôts comptabilisés au Canada, il n'y a évidemment aucun revenu pour la banque. En fait, ceux qui sont au Canada sont, à ce que je crois comprendre, consacrés à financer des prêts au pays et non à l'étranger.

M. McCrossan: Qu'est-ce que vous voulez dire, alors, lorsque vous dites qu'il n'y aura pas de perte d'impôts? Si les transactions sont faites au Canada actuellement et si les banques deviennent imposables, qu'est-ce que vous voulez dire en disant qu'il n'y aura pas d'impôts perdus?

M. Ernewein: Je n'ai pas dit qu'il y aurait des transactions qui sont actuellement faites au Canada et qui seraient transférées au centre bancaire international.

M. McCrossan: Je crois que cela se trouve assez clairement au dossier, et il me ferait plaisir de le retrouver également.

M. Ernewein: Notre intention est que la mesure législative vise les transactions à l'étranger, et non celles qui se font déjà au Canada.

M. McCrossan: Y a-t-il une période de grâce pour le transfert?

M. Ernewein: Il y a une période de grâce pour ramener au pays les prêts inscrits dans les succursales de l'étranger.

M. McCrossan: C'est exact. Et il est également possible, comme nous l'avons vu d'après nos entretiens avec le ministère, de laisser les prêts en vigueur expirer puis de renégocier d'autres prêts par la suite déplaçant au centre bancaire international les transactions qui se font actuellement au Canada.

M. Ernewein: Et c'est là une pétition de principe dans la mesure où les affaires se font déjà au Canada. . .

M. McCrossan: Parfaitement. C'est ce qui arrive. C'est pourquoi nous avons engagé M. MacKay pour nous

[Texte]

could be from the transfer of that business already in Canada, which was referred to in the Rasminsky-Lawson report, into the international banking centre. That is what led to our question of what the tax cost would be if that business were transferred in; and that is how we got the answer that the tax costs would be less than \$100,000. If the tax cost is less than \$100,000, then it seems to me that applying a \$100,000 limit per company is not unreasonable to limit the tax expenditures.

Mr. Ernewein: There is still no direct connection between the tax cost and this amendment which refers to a limitation in respect of net income.

Mr. McCrossan: How then would an amendment which referred directly to tax costs be drafted?

Mr. Ernewein: I think one would have great difficulty in doing it, because it would have to be, in effect, a pretend rule; that if this business had been done offshore, and had you been able to use your foreign taxes, and had you been able to use instead a foreign subsidiary, what would your Canadian tax have been?

Mr. McCrossan: I think a more interesting question is if it were done in Canada, because we know that business is being done in Canada now, and is transferred to the IBC, what would your taxes have been?

Mr. Ernewein: It is not our understanding that any significant amount of business which leads to Canadian taxes is currently done in Canada in respect of activity that is qualifying this.

The Chairman: There is no business done in Canada by these banks that leads to any Canadian taxes. They do not pay any.

Mr. McCrossan: There is lots of business of this type done in Canada by those banks. It is quite true that none of it leads to taxes—

The Chairman: Because they do not pay taxes.

Mr. McCrossan: The committee developed extensive figures that no bank, for all intents and purposes, had paid taxes since 1980.

Mr. Ernewein: Let me put it this way. To the extent this business would have paid tax in Canada but for the existence of prior year losses or the like, there is a very real chance it would have been or will be placed offshore once the banks return to taxable status, or improve or increase their tax payable. There are no safeguards or certainty that this income or activity, to the extent it is carried on in Canada—and we are not saying it is very significant—would not be moved offshore in the future.

Mr. McCrossan: What I am suggesting is an amendment which limits the banks' ability to diddle with the taxpayer. I think it is quite clear that every cent of income is going to be reported in the IBCs; and I think it is also quite clear that the banks have been very astute at allocating expenses and loan losses and that in the past;

[Traduction]

indiquer les pertes fiscales découlant du transfert de transactions qui se font déjà au Canada, transfert mentionné dans le rapport Rasminsky-Lawson, au centre bancaire international. C'est pour cela que nous avons demandé quel serait le coût fiscal de ce transfert et c'est ainsi que nous avons obtenu la réponse que les coûts fiscaux seraient inférieurs à 100,000\$. Si le coût fiscal est inférieur à 100,000\$, alors il me semble que d'imposer une limite de 100,000\$ par entreprise n'est pas déraisonnable pour restreindre les dépenses fiscales.

M. Ernewein: Il n'y a toujours aucun lien direct entre le coût fiscal et cet amendement qui impose une restriction à l'égard du revenu net.

M. McCrossan: Comment faudrait-il alors rédiger un amendement portant directement sur les coûts fiscaux?

M. Ernewein: J'estime que cela serait très difficile à faire, car il faudrait effectivement une règle hypothétique: si ces transactions avaient été faites à l'étranger, et si l'on avait pu utiliser les impôts étrangers, et si l'on avait pu utiliser plutôt une filiale étrangère, quel aurait été l'impôt canadien?

M. McCrossan: Je crois que la question suivante serait plus intéressante: si cela se faisait au Canada, car nous savons que des transactions sont actuellement faites au Canada, et si c'était transféré au centre bancaire international, quels auraient été les impôts?

M. Ernewein: A ce que nous savons, il ne se fait pas actuellement beaucoup de transactions aboutissant à des impôts canadiens à cet égard.

Le président: Ces banques ne font au Canada aucune transaction aboutissant à des impôts canadiens. Elles n'en paient aucun.

M. McCrossan: Ces banques font beaucoup de transactions de ce genre au Canada. Il est tout à fait vrai que rien de tout cela n'aboutit à des impôts. . .

Le président: Parce qu'ils ne paient pas d'impôt.

M. McCrossan: Le Comité a fait des calculs poussés montrant qu'aucune banque, à toutes fins utiles, n'avait versé d'impôt depuis 1980.

M. Ernewein: Dans la mesure où cette entreprise aurait versé des impôts au Canada sans les pertes des années antérieures ou d'autres éléments semblables, il y a un risque très réel que ces transactions auraient été ou seront placées à l'étranger une fois que les banques redeviendront imposables, ou amélioreront leur situation ou augmenteront l'impôt à payer. Rien ne garantit que ce revenu ou cette activité, dans la mesure où cela se passe au Canada—et nous ne disons pas que cela est très important—ne serait pas déplacé à l'étranger à l'avenir.

M. McCrossan: Ce que je propose, c'est un amendement qui rendrait plus difficile pour les banques de frauder le contribuable. Je crois qu'il est bien évident que tous les revenus seront déclarés par les centres bancaires; je crois qu'il est également bien évident que les banques ont dans le passé fait preuve de beaucoup

[Text]

and I think it is quite clear there can be a very significant tax cost if they succeed in using this tax haven inside Canada to reclassify business.

I think the ministry has clearly stated that this will not happen and that these tax costs will not arise. I am absolutely convinced, on the basis of our expert testimony, on the basis of private testimony I have had, that the department is wrong. Now, either the department will back up its figures or it will not. If it accepts its own figures, it should accept this type of amendment.

Mr. Farber: Mr. Chairman, we can argue these numbers back and forth if the committee would like, to its heart's content.

• 1200

I guess one should not lose sight of what the objective was with regard to international banking centres. It was to bring back activity that is done offshore. As for the activity with non-resident loans and deposits currently being done in Canada, if it were going to be taxable, they would be doing it offshore. I do not see the tax expenditure involved in there. We are trying to repatriate the activity. To this extent, it is a very narrowly constrained legislation dealing with certain aspects of international banking and is designed to bring activity into the banking centres that would otherwise not be happening here.

As I say, one can argue about the hypothetical figures, but these are purely hypothetical figures that just would not happen. If it was going to be taxable, they would move it off shore. This is international banking. As my colleague has indicated, a very small proportion of the \$22 billion of outstanding loans is really a—

The Chairman: Mr. Farber, you and I both disagree on this.

Mr. Farber: I know you and I disagree on this, Mr. Chairman.

The Chairman: I think we have had enough debate. I think we ought to call the amendment moved by Mr. McCrossan. All those in favour? We will poll the members.

An hon. member: You have a tie, Mr. Chairman.

The Chairman: The Chair sustains the government and votes against the amendment.

I want to explain it very carefully to you. The obligation of the Speaker in the House, in the case of a tie, is to support the government. I have no choice on the precedents in the House but to support the government, although I am totally against clause 10.

Amendment negated: nays, 6; yeas 5.

[Translation]

d'astuce dans l'attribution des dépenses et des pertes au titre des prêts; et je crois qu'il est bien évident qu'il pourrait y avoir un coût fiscal très important si elles réussissent à utiliser cet abri fiscal à l'intérieur du Canada pour reclassifier les transactions.

Je crois que le ministère a déclaré clairement que ceci ne se produira pas et que ces coûts fiscaux n'existeront pas. Je suis absolument convaincu, d'après le témoignage des experts, d'après les témoignages privés que j'ai reçus, que le ministère se trompe. Le ministère va soit maintenir ses chiffres, soit les récuser. S'il accepte ses propres chiffres, il devrait accepter un amendement de ce genre.

M. Farber: Monsieur le président, si le Comité le désire, nous pouvons discuter indéfiniment de ces chiffres.

Il ne faudrait pas perdre de vue l'objectif des centres bancaires internationaux. Il s'agissait de ramener au pays des activités de l'étranger. Quant aux activités touchant les prêts et les dépôts des non-résidents qui se font actuellement au Canada, si elles devaient être imposables, elles seraient faites à l'étranger. Je ne vois pas quelle dépense fiscale est en jeu ici. Nous essayons de rapatrier l'activité. Il s'agit donc d'une mesure législative très restreinte portant sur certains aspects de l'activité bancaire internationale et visant à ramener aux centres bancaires des activités qui auraient autrement lieu ailleurs.

Comme je le disais, on peut discuter indéfiniment des chiffres hypothétiques, mais il s'agit de chiffres purement hypothétiques qui ne se produiront tout simplement pas. S'il devait y avoir de l'impôt à payer, les activités seraient déplacées à l'étranger. Telle est la nature de l'activité bancaire internationale. Comme mon collègue l'a dit, une très petite proportion des 22 milliards de prêts en vigueur est effectivement. . .

Le président: Monsieur Farber, nous ne sommes pas d'accord sur ce point.

M. Farber: Je sais que nous ne sommes pas d'accord sur ce point, monsieur le président.

Le président: Je crois que le débat s'est poursuivi assez longtemps. Je crois que nous devrions passer au vote sur l'amendement proposé par M. McCrossan. Tous ceux qui sont en faveur? Nous allons passer au scrutin.

Une voix: Le scrutin est égal, monsieur le président.

Le président: Le président appuie le gouvernement et vote contre l'amendement.

Il faut que je vous explique cela très soigneusement. En cas d'impasse, le Président de la Chambre a l'obligation d'appuyer le gouvernement. Les précédents en Chambre m'obligent à appuyer le gouvernement, bien que je sois totalement opposé à l'article 10.

Amendement rejeté: contre, 6; pour, 5.

[Texte]

Miss Nicholson: Mr. Chairman, on a point of order, obviously your vote is a matter for your decision. Just as a correction, my understanding is that the precedents state not that the Speaker support the government, but that the Speaker vote in a manner to keep the issue open. You make up to the same thing.

The Chairman: The motion, of course, is still open.

Mr. McCrossan: Mr. Chairman, I would like to raise this issue again because I am having some difficulty with the debate that took place. It seems to me the argument was that the \$100,000 figure was—

Mrs. Collins: Mr. Chairman, on a point of order. We voted on this amendment. I think it is entirely—

The Chairman: I have recognized Mr. McCrossan.

Mr. McCrossan: I understand exactly that you voted on this amendment, Mrs. Collins. I was just pursuing the point in preparation of possibly putting another amendment before the committee.

The point seemed to be that the \$100,000 was unreasonably small. Therefore I would move the same motion again, changing the \$100,000 limit to \$1 million limit, which gives the department a 7,000% error factor. I think no matter how you slice the profit margins on this business, they cannot conceivably come up with more than \$1 million of profit per bank in IBCs in Canada without diddling the taxpayer. Therefore, Mr. Chairman, if the argument was that the \$100,000 was unreasonably low and if the department is concerned and is absolutely convinced these tax expenditures will not take place, then I am prepared to give them 10 times the error factor. After all, we heard evidence earlier today, and we are familiar with the scientific research tax credits. The worst error they have ever made, I think, is an error of 20 times, which is 2,000%. I am willing to go 7,000% on this thing to give them all the latitude, to give them the room to cover... This would cover the biggest error the Department of Finance has ever made, but will still provide some safety to the Canadian taxpayer that these IBCs are not going to be used to diddle the Canadian taxpayer. Now, if the \$100,000 is unreasonable, is \$1 million of profit unreasonable? Because we have heard testimony that these expenses can be extremely high, and tax expenditures can be extremely high.

• 1205

So I think the principle of having a limit on these tax expenditures is one which must be incorporated, and therefore I am willing up the ante by allowing for, as I say, a 7,000% under-calculation by the department of the actual cost of this measure.

Mr. Layton: Mr. Chairman, could I ask whether the motion, suggestion or amendment that has been proposed by my colleague, Mr. McCrossan, is in order?

[Traduction]

Mme Nicholson: Monsieur le président, j'invoque le Règlement. Certes, c'est à vous qu'il appartient de décider de votre vote. Mais pour rectifier, à ce que je crois comprendre, les précédents obligent le président non pas à appuyer le gouvernement, mais à voter de façon à garder le débat ouvert. Vous arrivez à la même chose.

Le président: La proposition est évidemment toujours ouverte.

M. McCrossan: Monsieur le président, j'aimerais reprendre cette question parce que le débat me pose certaines difficultés. Il me semble qu'on a fait valoir que le chiffre de 100,000\$ était... .

Mme Collins: Monsieur le président, j'invoque le Règlement. Nous avons voté sur cet amendement. Je crois qu'il est tout à fait... .

Le président: J'ai donné la parole à M. McCrossan.

M. McCrossan: Je comprends bien que vous avez voté sur cet amendement, madame Collins. Je me préparais à déposer éventuellement un autre amendement.

Il me semble qu'on a trouvé que le chiffre de 100,000\$ était trop petit. C'est pourquoi je referais la même proposition en portant la limite de 100,000\$ à 1 million de dollars, ce qui donne au ministère un facteur d'erreur de 7,000 p. 100. Peu importe comment on calcule la marge bénéficiaire, il ne saurait y avoir plus d'un million de bénéfices par banque dans les centres bancaires du Canada sans que le contribuable ne soit fraudé. C'est pourquoi, monsieur le président, si l'on trouvait le chiffre de 100,000\$ déraisonnable et si le ministère s'inquiète et est absolument convaincu que ces dépenses fiscales n'auront pas lieu, alors je suis prêt à décupler le facteur d'erreur. Après tout, nous avons entendu des témoignages tout à l'heure et nous connaissons bien les crédits d'impôt pour la recherche scientifique. La pire erreur jamais faite, je crois, était une erreur de 20 fois, soit 2,000 p. 100. Je suis prêt à aller jusqu'à 7,000 p. 100 pour donner toute latitude—ceci couvrirait l'erreur la plus importante jamais faite par le ministère des Finances, tout en assurant une certaine garantie pour le contribuable canadien que ces centres bancaires internationaux ne servent pas à frauder. Si la somme de 100,000\$ est déraisonnable, est-ce qu'un bénéfice de 1 million de dollars est déraisonnable? Selon les témoignages que nous avons entendus, ces dépenses peuvent être très élevées et les dépenses fiscales peuvent être extrêmement élevées.

C'est pourquoi je crois qu'il faut établir le principe d'une limite pour ces dépenses fiscales et je suis donc prêt à augmenter la mise en permettant, comme je l'ai dit, une erreur de calcul de 7,000 p. 100 de la part du ministère par rapport aux coûts réels de cette mesure.

M. Layton: Monsieur le président, j'aimerais demander si la proposition, la suggestion ou l'amendement proposé par mon collègue M. McCrossan est conforme aux règlements?

[Text]

The Chairman: I do not see any reason why it would not be. If the first amendment was in order, there is no reason why the second one would not be in order.

Mr. Layton: May I ask then, is there any limit to how far he can go?

The Chairman: There is no limit to the number of amendments a member can make.

Mr. Layton: It is always an amendment as long as he adds another dollar to it? I mean, he went from \$100,000 to \$1 million. I can see \$10 million is the next one. I just wonder what reference. . . it is a matter of principle.

The Chairman: Well, what you are presenting is a matter of argument rather than a matter of principle or a matter of amendments. But I think there is no question that in the rules a member is entitled to make amendments to clauses before the committee. This clause is before the committee, and Mr. McCrossan, having been defeated on one motion, has made an amendment or moved another amendment which is in the same phraseology as the first amendment, only increasing the difference by ten times, which is a very substantial change in what the original amendment was. I mean, it is a ten-times change.

Mr. Minaker: Yes. Just for clarification from the staff, is \$22 billion what the figure was of offshore activity?

Mr. Ernewein: That is the figure, I believe, that is in the Rasminsky-Lawson report referring to the 1984 tables.

Mr. Minaker: At 5 basis points, which would be the lower level, if you apply that just to the interest gained on the loans, it comes out to \$11 million of revenue.

Mr. Ernewein: When you speak of 5 basis points, do you mean .05 of 1%? Were you speaking of .05 of 1%? I believe the spread is more in the nature of .5 to 1%.

Mr. McCrossan: That is not the evidence we have—

Mr. Minaker: Well, even if it is one it is \$22 million we are talking about, and we are talking about seventy—

Mr. Ernewein: That aside, Mr. Chairman, it is not that \$100,000 or \$1 million is unreasonable; it is just that we would suggest is irrelevant to the issue. It is a question of tax laws. I would assume that if this government lost \$50,000 or \$100,000 per bank of tax, that would be too much to sustain this proposal, and it is far more than what we suggested would arise. But it does not mean that allowing the banks to derive \$100,000 of income or \$1 million from this source would be problematic, because it does not lead to the conclusion necessarily that we are losing a nickel of tax from that.

Mrs. Collins: It seems to me that ordinarily in dealing with amendments, Mr. McCrossan could have amended

[Translation]

Le président: Je ne vois pas pourquoi pas. Si le premier amendement était conforme, je ne vois pas pourquoi le second ne le serait pas.

M. Layton: Est-ce que je peux alors vous demander s'il y a une limite quelconque?

Le président: Il n'y a aucune limite au nombre d'amendements que l'on peut proposer.

M. Layton: Est-ce que c'est toujours un amendement dans la mesure où il ajoute un autre dollar? Il est passé de 100,000\$ à 1 million de dollars. Ensuite ce sera 10 millions de dollars. Je me demande—c'est une question de principe.

Le président: Eh bien, ce que vous dites est un argument plutôt qu'une question de principe ou d'amendement. Mais je crois qu'il ne fait aucun doute que les règles permettent à un membre du Comité de présenter des amendements aux articles dont est saisi le Comité. Le Comité est saisi de cet article et M. McCrossan, ayant été défait sur une première proposition, a fait ou présenté un autre amendement dont le libellé est semblable à celui du premier, si ce n'est que la différence a été décuplée, ce qui constitue un changement très substantiel par rapport au premier amendement. Il est multiplié par dix.

M. Minaker: Oui. J'aimerais demander aux fonctionnaires de préciser si ce chiffre de 22 milliards de dollars représente l'activité à l'étranger?

M. Ernewein: C'est là je crois le chiffre du rapport Rasminsky-Lawson par rapport au tableau de 1984.

M. Minaker: Au moins cinq points de base, qui seraient le niveau le plus bas, si l'on applique cela uniquement à l'intérêt sur les prêts, cela donne 11 millions de dollars de recettes.

M. Ernewein: Quand vous parlez de cinq points de base, voulez-vous dire 0,05 de 1 p. 100? S'agit-il de 0,05 de 1 p. 100? Je crois que l'écart est plutôt de l'ordre de 0,5 de 1 p. 100.

M. McCrossan: Ce n'est pas le sens des témoignages. . .

M. Minaker: Eh bien, même si c'est 1, il s'agit de 22 millions de dollars et il s'agit de 70. . .

M. Ernewein: Cela mis à part, monsieur le président, ce n'est pas que le chiffre de 100,000\$ ou d'un million de dollars est déraisonnable, c'est tout simplement que selon nous il n'est pas pertinent. Il s'agit de lois fiscales. Je suppose que si le gouvernement perdait 50,000\$ ou 100,000\$ d'impôt par banque, cela serait trop pour justifier cette proposition, et c'est beaucoup plus que ce que nous avons laissé entendre. Mais cela ne signifie pas que le fait de permettre aux banques de retirer des revenus de 100,000\$ ou d'un million de dollars de cette source causerait un problème, parce que cela ne mène pas nécessairement à la conclusion que nous perdons même 5c. en impôt à cet égard.

Mme Collins: Il me semble que selon la procédure ordinaire des amendements, M. McCrossan aurait pu

[Texte]

his original amendment in terms of the amount, but we voted down the amendment on the principle, and the amendment he is now putting forward is the same principle, and certainly in my mind I was voting against the principle of the idea of limiting in legislation this kind of activity.

Mr. Parry: It is surely out of order, Mr. Chairman, for the hon. member to impute the motive for her colleagues in voting. I suggest that is completely tendentious and really has no place in this debate.

I wonder if I might make a suggestion under the same rubric of a point of order, Mr. Chairman, that you might consider deferring the vote on Mr. McCrossan's new amendment in order to allow the members from the government side to do a little caucusing, and also, sir, to allow you to review with the Speaker or his advisers the rationale you stated for casting your own vote. Although I have no claim to be a procedural expert, having recently spent some time in privileges and elections, the point driven into me at some length was that committees are masters of their own destiny, and I would assume that extended to the chairman.

• 1210

Mrs. Collins: A point of business, Mr. Chairman. I understand we are adjourning at 12.30 p.m., and it appears we will not be through the bill. I would like to move we reconvene at 3.30 p.m. and continue the deliberation of the bill for as long as it takes.

The Chairman: As I will not be here this afternoon, the chair will have to be taken by someone else.

Mr. McCrossan: Mr. Chairman, we have prior commitments. I have some problem in running this again, but obviously it is up to the committee to decide. It is customary to give more notice of committee meetings. I will cancel my afternoon commitments and be here. But this committee has worked on the precedent of working inside the time blocks allotted to the committee, and that has been our custom.

The Chairman: Is there anyone else who wants to speak to the motion that the committee sit at 3.30 p.m.?

Motion agreed to.

The Chairman: I have a further motion by Mr. McCrossan in connection with clause 10 that suggests net income for an international banking centre be limited to \$1 million and income in excess of that be included in computing the income of the taxpayer.

Mr. Minaker: I am confused, Mr. Chairman. If we are talking about \$22 or \$24 billion of offshore activity, and even if we double the five points to ten—

Mr. McCrossan: We are only expected to get \$5 billion or \$6 billion back.

[Traduction]

modifier la somme de son premier amendement, mais nous avons rejeté l'amendement en principe et celui qu'il présente maintenant repose sur le même principe; quant à moi, en tout cas, j'ai voté contre le principe, contre l'idée de restreindre ce genre d'activité par la loi.

M. Parry: Il n'est sûrement pas conforme au règlement, monsieur le président, que la député attribue un motif au vote de ses collègues. C'est là une affirmation tout à fait tendancieuse et qui n'est pas à sa place dans ce débat.

Est-ce que je pourrais suggérer, monsieur le président, toujours à titre d'appel au Règlement, que vous reportiez le vote sur le nouvel amendement de M. McCrossan pour permettre aux députés du côté gouvernemental de se consulter un peu et aussi, monsieur, pour vous permettre d'étudier avec le Président de la chambre ou ses conseillers la raison que vous avez énoncée pour votre propre vote. Malgré que je n'ai pas la prétention d'être expert en matière de procédure, pour avoir dernièrement travaillé quelques temps au Comité des privilèges et élections, on m'a finalement convaincu que les comités sont maîtres de leur destinée, et je suppose que cela vaut aussi pour le président.

Mme Collins: Au sujet du programme d'aujourd'hui, monsieur le président, je crois qu'il est prévu que nous ajournions à 12h30, et il semble que nous n'aurons pas terminé l'étude du projet de loi. Je propose de reprendre à 15h30 et de siéger aussi longtemps qu'il le faudra pour mettre un terme à nos travaux sur ce projet de loi.

Le président: Je dois m'absenter cet après-midi. Il faudra donc que quelqu'un me remplace.

M. McCrossan: Monsieur le président, nous avons d'autres engagements. J'hésite à revenir encore une fois là-dessus, mais c'est évidemment au Comité qu'il appartiendra d'en décider. Nous avons habituellement plus de temps que cela pour nous préparer à assister aux séances des Comités. Je vais annuler les engagements que j'ai pris, et je serai là cet après-midi. Mais nous avons pris l'habitude de nous en tenir au temps alloué au comité.

Le président: Quelqu'un a-t-il quelque chose à dire au sujet de la motion qui veut que la séance reprenne à 15h30?

La motion est adoptée.

Le président: J'ai ici une autre motion de M. McCrossan au sujet de l'article 10, qui suggère de limiter à 1 million de dollars le revenu net, dans le cadre d'un centre bancaire international et d'inclure au revenu du contribuable tout autre revenu dépassant cette somme.

M. Minaker: Je comprends mal, monsieur le président. En supposant que les activités atteignent 22 ou 24 milliards de dollars, même en doublant à 10 p. 100 le pourcentage. . .

M. McCrossan: On ne prévoit que 5 ou 6 milliards.

[Text]

Mr. Minaker: —you are looking at \$22 million of revenue, without even dealing with whatever costs they may have. The motion that Mr. McCrossan has put on the floor really gives out a potential of \$70 million if all the people in the activity take advantage of it. I would like to know why this would prejudice the idea of banking centres not setting up in Canada. We have three or four times what we would even get as income as sort of the top cap-off point, to make sure there is no diddling in the books.

Mr. Ernewein: It is not relevant to what our tax loss is. The income of the bank from the source is not relevant to the tax loss we may or may not encounter. This business may not be split evenly among 70 banks. That is a smaller issue.

• 1215

Mr. McCrossan: Mr. Chairman, I want to know from the officials how you can define taxable income in a way that would effectively cap the tax expenditure on this business? I think that their argument—this amendment clearly allows for \$1 million of tax-free income inside the international banking centre per bank. I think it is clear that it allows for \$1 million of tax-free income. And a clear argument that it does not allow for \$1 million of tax-free income—I would like to know why it does not and how it could be amended so that it catches tax-free income.

Mr. Ernewein: It certainly caps the deductible portion or exempt portion of income from an IBC to \$1 million. But that does not mean cap our losses or that they are going to be tolerable, if they exist at all. The point is that it is the tax payable that is relevant and not the taxable income. A tax-payable rule to cap the amount of tax losses would have to take into account the fact that there are foreign taxes that could have been deductible if they had been done offshore. There are other jurisdictions, countries that is, that accord tax-free status to this business. If it were not done in an IBC, it may have been placed in that area. The only way one could do it would be to develop a pretend rule saying that if this business were not done in an IBC, what kind of tax would you have paid? Then one would have to look to whether or not the bank would have placed it offshore, and what sort of foreign taxes it would have attracted. In short I am suggesting that it may not be feasible to draft a rule that would cap the tax payable.

Mr. Minaker: Mr. Chairman, is the figure available for the different banks for their offshore loans?

Mr. Ernewein: The Bank of Canada review may well contain that. . . Well, perhaps not the Bank of—

The Chairman: The only way we found out was by getting Revenue Canada to disclose it for four banks. The

[Translation]

M. Minaker: . . . cela devrait rapporter 22 millions de dollars, sans même tenir compte des coûts que cela pourrait entraîner. La motion que présente M. McCrossan risquerait de nous coûter 70 millions de dollars si tous s'en prévalaient. Je voudrais savoir en quoi cela remettrait en cause l'idée qu'aucun centre bancaire ne soit établi au Canada. La limite que nous avons fixée, pour éviter les petits tours de passe-passe dans les livres, est déjà trois ou quatre fois plus élevée.

M. Ernewein: Cela n'a rien à voir avec notre perte fiscale. Le revenu de la banque n'a rien à voir avec la perte fiscale que nous devons essayer ou non. Elle ne sera peut-être pas répartie également entre 70 banques. C'est une question de moindre importance.

M. McCrossan: Monsieur le président, je voudrais demander aux hauts fonctionnaires comment on pourrait définir le revenu imposable de manière à limiter la perte fiscale sur ces activités. Il est clair que cette modification permet à chaque banque de tirer un million de dollars de revenus qui ne seront pas imposables de ces activités dans le cadre d'un centre bancaire international. Cela me paraît évident. Si ce n'est pas le cas, je voudrais bien qu'on me le démontre et je voudrais bien qu'on me dise aussi quelles modifications il faudrait apporter de manière à récupérer les revenus exonérés d'impôt.

M. Ernewein: Il ne fait aucun doute que cela limite la portion du revenu déductible ou exonéré d'impôt réalisé dans un centre bancaire international à un million de dollars. Mais cela ne veut pas dire que cela limite nos pertes ou qu'elles seront tolérables, le cas échéant. C'est l'impôt à payer qui importe et non pas le revenu imposable. Si l'on voulait imposer une règle sur l'impôt à payer, afin de limiter les pertes fiscales, il faudrait tenir compte du fait qu'il pourrait y avoir des impôts étrangers déductibles si les activités avaient été effectuées à l'étranger. Il y a d'autres pays où ces activités sont exonérées d'impôt. Si elles étaient passées par un centre bancaire international, ce pourrait être le cas. La seule façon de le faire serait d'élaborer une règle bidon qui permettrait d'établir quels impôts auraient dû être payés si cette activité n'était pas passée par un centre bancaire international. Il faudrait alors déterminer si la banque l'aurait effectuée à l'étranger et à quels impôts étrangers elle aurait été assujettie. Ce que je dis, en fin de compte, c'est qu'il n'est peut-être pas possible d'élaborer une règle qui permettrait de limiter l'impôt à payer.

M. Minaker: Monsieur le président, les chiffres des prêts à l'étranger consentis par les différentes banques sont-ils disponibles?

M. Ernewein: Il est fort possible que l'étude de la Banque du Canada renferme. . . Peut-être pas l'étude de la Banque du Canada. . .

Le président: Nous avons dû nous en remettre à Revenu Canada pour obtenir ces chiffres à propos de

[Texte]

figure could be obtained, but they will not disclose it to us.

Mr. Ernewein: Mr. Chairman, I do not believe the question was related to income. I believe it related just to the loans each bank holds offshore.

Mr. Minaker: Yes, of the \$22 billion, you know—

Mr. McCrossan: It is in the Rasminsky-Lawson report.

Mr. Ernewein: On a bank-by-bank basis, it may be contained in the Bank of Canada review, or in schedule J, or some source of the Bank Act.

Mr. McCrossan: Since we are going this afternoon, I wonder whether that information could not be brought back. I do not want to surprise the committee this afternoon with another request. With the indulgence of the committee, I wonder if I could indicate there is some information I will be asking for this afternoon, so the officials are prepared for it.

I would like to read into the record, a letter that I received this morning that was a copy of a letter dated this week sent from the Treasurer of Ontario, Robert Nixon, to the Minister of Finance, Michael Wilson. My letter directly concerns testimony given to the committee prior to the letter. With the indulgence of the committee, I will read the letter in full, because it refers to prior correspondence I would like to have available before the committee.

Dear Mr. Wilson,

I am writing you concerning your government's proposal to establish international banking centres in Montreal and Vancouver. It is my understanding that the Standing Committee on Finance and Economic Affairs will be very shortly undertaking clause-by-clause review of Bill C-64, which contains the provisions related to IBCs.

As you know, the Ontario Government is concerned about the impact these provisions will have on the financial community. Our premier has written the Prime Minister on three occasions, stressing his concern that government intervention in influencing the location of financial markets would be inefficient and detrimental to the competitiveness of the financial-services sector.

The Ontario Government has maintained that IBC provisions may lead to potentially destructive competition among Canadian cities, and will send mixed and confusing signals to the world investment community. Furthermore, we believe this regional initiative runs counter to the objectives of tax reform. For these reasons, I urge you to reconsider the IBC

[Traduction]

quatre banques. Les chiffres sont disponibles, mais on ne voulait pas nous les fournir.

M. Ernewein: Monsieur le président, je ne pense pas que la question avait trait au revenu. Je crois plutôt qu'il s'agissait des sommes que chaque banque a prêtées à l'étranger.

M. Minaker: Oui, des 22 milliards de dollars, vous savez. . .

M. McCrossan: Ces chiffres sont dans le rapport Rasminsky-Lawson.

M. Ernewein: Il se peut qu'ils apparaissent dans l'étude de la Banque du Canada pour chacune des banques ou à l'annexe J, ou dans une source quelconque stipulée dans la Loi sur les banques.

M. McCrossan: Étant donné que nous devons siéger cet après-midi, serait-il possible d'obtenir ces renseignements? Je ne veux pas surprendre encore une fois le Comité cet après-midi avec une autre demande. Si le Comité me le permet, je voudrais signaler que je demanderai cet après-midi quelques renseignements afin que les hauts fonctionnaires ne soient pas pris au dépourvu.

Je voudrais maintenant lire une lettre, pour qu'elle soit consignée au procès-verbal. On m'a remis ce matin la copie d'une lettre, datée de cette semaine, qu'adressait le trésorier de la province de l'Ontario, M. Robert Nixon, au ministre des Finances, M. Michael Wilson. Cette lettre est directement reliée à un témoignage qu'a reçu le présent Comité avant sa réception. Si le Comité me le permet, je vais lire intégralement la lettre en question parce qu'elle fait partie d'un certain nombre de documents que je voudrais que le Comité puisse obtenir.

Cher monsieur Wilson,

Je vous écris au sujet de la proposition du gouvernement d'établir des centres bancaires internationaux à Montréal et à Vancouver. Je crois savoir que le Comité permanent des finances et des affaires économiques entreprendra d'ici peu l'étude article par article du projet de loi C-64, qui renferme les dispositions relatives aux centres bancaires internationaux.

Comme vous le savez, le gouvernement de l'Ontario entretient un certain nombre d'inquiétudes au sujet des répercussions qu'auront ces dispositions dans les milieux de la finance. Notre premier ministre a écrit à trois reprises au premier ministre du Canada pour lui faire part de son inquiétude à ce que l'intervention du gouvernement, qui influe sur la désignation des marchés financiers, soit inefficace et nuise à la compétitivité du secteur des services financiers.

Le gouvernement de l'Ontario a fait valoir que les dispositions relatives aux services bancaires internationaux risquent de mener à une concurrence destructrice entre des villes canadiennes et d'être mal perçues par les investisseurs du monde entier. Nous croyons en outre que cette initiative régionale va à l'encontre des objectifs de la réforme fiscale. C'est pour

[Text]

proposal by withdrawing the appropriate provisions from Bill C-64, or by amending Bill C-64 to make the IBC designation national in application.

Now the reason for my question, the reason for indicating that I wanted documents, has to do with the testimony given by the department of Finance in issue 26, of January 28, in which I asked specifically the Assistant Deputy Minister, Mr. Dodge, whether communication had been received by the federal government from Ontario indicating any disquiet with the proposals, or indicating that they would indeed take steps on their own initiative were such proposals to take place.

• 1220

Mr. Dodge replied at that time that there were general concerns but no specific concerns or correspondence received.

Since Mr. Nixon's letter refers specifically to three letters from the Premier of Ontario to the Prime Minister, which I assume the department is aware of, I wondered if he would be prepared to bring those letters before the committee to ascertain whether the committee was misled in its consideration of the IBC proposals by the officials of the Department of Finance.

Mr. Layton: Does that mean all the correspondence that has come in?

The Chairman: There was a suggestion that there was no influence being brought to bear by Ontario on this matter. I think that if, in fact, there has been then we are entitled to see that.

Mr. Layton: May I ask, Mr. Chairman, what is the relevance to the amendment?

Mr. McCrossan: It is not relevant to this amendment, it is relative to the main motion, and I was simply serving notice—

The Chairman: I want to put this amendment now if I can.

Mr. McCrossan: I think that is acceptable. I just wanted to indicate to the officials that when we get to the main motion I would be asking for these documents, and therefore they have three hours notice to produce the documents.

The Chairman: What I am going to suggest I do for the members of the committee is that I put Mr. McCrossan's second amendment and we adjourn for lunch. The committee has already agreed to come back at 3.30 p.m., and there may be some time during the break to come to some rationalization of the problems.

[Translation]

ces raisons que je vous prie instamment de reconsidérer la proposition relative aux centres bancaires internationaux en éliminant du projet de loi C-64 les propositions pertinentes ou en modifiant le projet de loi C-64 de manière à donner à la désignation des centres bancaires internationaux un caractère national.

Ma question... et ce pourquoi je dis vouloir obtenir certains documents... se rattache au témoignage que nous donnait le 28 janvier... fascicule 26... M. Dodge, sous-ministre adjoint au ministère des Finances. Je lui avais alors demandé si le gouvernement de l'Ontario avait manifesté d'une façon quelconque au gouvernement fédéral quelque inquiétude au sujet des propositions ou s'il avait indiqué son intention de prendre des mesures de son propre chef si ces propositions étaient acceptées.

M. Dodge a répondu que certaines inquiétudes d'ordre général avait été exprimées, mais rien de précis, et que l'on n'avait reçu aucune correspondance à ce sujet.

Compte tenu que dans sa lettre, M. Nixon mentionne que le Premier ministre de l'Ontario a écrit à trois reprises au Premier Ministre du Canada, ce que doit savoir le ministère, je suppose, je me demande s'il serait disposé à déposer ces lettres au comité afin de vérifier si le haut fonctionnaire du ministère des Finances n'aurait pas mal informé le comité dans le cadre de son étude des propositions relatives aux centres bancaires internationaux.

M. Layton: Voulez-vous dire toutes les lettres qui ont été reçues?

Le président: On m'a laissé entendre que le gouvernement de l'Ontario n'avait pas cherché à intervenir en la matière. Si ce n'est pas le cas, et si le gouvernement de l'Ontario a effectivement exercé des pressions, nous devrions pouvoir voir ces lettres.

M. Layton: Monsieur le président, pourrais-je savoir ce que cela a à voir avec l'amendement?

M. McCrossan: Cela n'a en effet rien à voir avec l'amendement, mais avec la motion principale, et ce n'était que pour avertir...

Le président: Je voudrais maintenant passer au vote sur cet amendement, si c'est possible.

M. McCrossan: Cela me convient. Je voulais tout simplement faire savoir aux fonctionnaires que lorsque nous vous entreprendrons de discuter de la motion principale, je demanderai de voir ces documents, ce qui leur laisse donc trois heures pour me les remettre.

Le président: Je proposerais donc au comité de voter sur le deuxième amendement proposée par M. McCrossan et d'ajourner ensuite pour le déjeuner. Nous avons convenu de reprendre à 15h30, et nous arriverons peut-être à résoudre en partie les difficultés d'ici là.

[Texte]

Mr. Farber: Mr. Chairman, I wonder if it would be possible to deal with the questions on RCAs before we adjourn. I have somebody here who can possibly address those questions. As you very well know, we are under some very tight time constraints with regard to the work of the department, and we cannot keep them here all day.

The Chairman: Mr. Farber has asked us if we would go back to clause 6 and 7 temporarily. Would the committee give me permission to do that?

Miss Nicholson: I would like to speak on the amendment, Mr. Chairman.

The Chairman: May I suggest to you that it would be in the interest of efficiency to leave the question of the vote on the amendment until after lunch. If we let Mr. Farber's official, who is here, give this information to us... I have to tell you I have already been apprised of another amendment with respect to clause 10. I suspect you might wind up with amendments all afternoon with respect to clause 10. So I would suggest—my wisdom here might not be wrong—that we hear and clean up this issue and come back after, and we might just have an answer to it all.

Mr. Minaker: Mr. Chairman, could I just add we will have that information on the amounts of foreign loans by the different banks from that report.

Mr. Ernewein: If it is available in the *Bank of Canada Review* or in public information—

Mr. McCrossan: Yes, the *Bank of Canada Review* is where they got—

The Chairman: May I then have the consent of the committee to revert back to clauses 6 and 7?

Some hon members: Agreed.

The Chairman: We were on the question of clauses 6 and 7 and retirement compensation plans.

Mr. Fuke: Mr. Chairman, the question was asked us whether we could give assurance that the public sector offside plans would be caught under the RCA provisions, whether funded or unfunded, as a result of the proposed pension package. The answer cannot be clear cut. The only unfunded plans we are aware of are the federal and provincial civil servants plans, the MPs plans, the MLAs plans and the judges plans. So far as we know at this time, the other public sector plans are all funded plans, and of course all of these are registered plans.

With respect to the funded plans, we expect to introduce legislation to deal with those that do not comply with the new pension registration requirements. With respect to the unfunded plans which, in effect, are simply promises to pay, we do not deal with unfunded promises in the private sector, we do not penalize those.

[Traduction]

M. Farber: Monsieur le président, serait-il possible de discuter tout de suite des questions ayant trait aux conventions de retraite avant la levée de la séance? J'ai ici, avec moi, quelqu'un qui peut-être répondre aux questions que l'on se pose à ce sujet. Comme vous le savez très bien déjà, nos échéances sont très serrées au ministère, et nous ne pouvons pas permettre à nos fonctionnaires de passer la journée ici.

Le président: M. Farber nous demande de revenir temporairement aux articles 6 et 7. Y a-t-il des objections?

Mme Nicholson: Je voudrais poursuivre sur l'amendement, monsieur le président.

Le président: Si je peux me permettre, je crois qu'il serait plus efficace de remettre le vote sur l'amendement après le déjeuner. En permettant aux fonctionnaires de M. Farber de nous donner immédiatement ces renseignements... Je dois vous dire que j'ai déjà reçu un autre amendement au sujet de l'article 10. Et je suppose qu'il est fort possible qu'il y en ait bien d'autres, tout l'après-midi au sujet de l'article 10. Je proposerais donc—et ce serait peut-être la meilleure solution—de liquider cette question et de revenir au vote plus tard. Nous trouverons peut-être la solution que nous recherchons.

M. Minaker: Monsieur le président, puis-je ajouter que nous allons obtenir les renseignements que nous voulions au sujet des montants des prêts à l'étranger consentis par les différentes banques.

M. Ernewein: S'il se trouve dans l'étude de la Banque du Canada ou... .

M. McCrossan: Oui, c'est de l'étude de la Banque du Canada qu'on les a tirés... .

Le président: Puis-je avoir le consentement du comité pour revenir aux articles 6 et 7?

Des voix: D'accord.

Le président: Nous revenons donc aux articles 6 et 7 et à la question des régimes de retraite.

M. Fuke: Monsieur le président, on nous a demandé si nous pourrions donner l'assurance que les régimes de retraite du secteur public, qu'il s'agisse de régimes à contribution ou non, seront assujettis aux dispositions de la convention de retraite à la suite de la proposition relative au régime de retraite. La réponse doit être circonscrite. Les seuls régimes sans contribution patronale que nous connaissions sont ceux des fonctionnaires fédéraux et provinciaux, les régimes des députés fédéraux, ceux des députés provinciaux, et les régimes des juges. A l'heure actuelle, les autres régimes du secteur public sont tous des régimes à contribution, et, bien entendu, tous sont enregistrés.

En ce qui a trait aux régimes à contributions, nous prévoyons déposer une loi pour ceux qui ne satisfont pas aux nouvelles exigences relatives à l'enregistrement des régimes de retraite. Pour ce qui est des régimes sans contribution, qui ne sont qu'en réalité que des promesses, nous ne nous occupons pas des promesses du secteur

[Text]

For example, if an executive of a corporation is promised a \$100,000 per annum pension, and the last \$40,000 is just simply an unfunded promise. [xxx bad join] We are not dealing with it in the private sector now because there is no tax deferral. At this time we do not see any legal power or mechanism to deal with these unfunded promises.

• 1225

The Chairman: You were to give us promises about further legislation you have also. What is the situation?

Mr. Fuke: Legislation is being drafted in terms of the funded plans which would not conform with the new rules about registration.

Mr. McCrossan: What I heard—I just want to make it clear—is that these amendments and the prospective amendments in the pension legislation do not deal with these unfunded plans.

Mr. Keith Horner (Chief, Tax Analysis (Social Security) Tax Policy and Legislation Branch, Department of Finance): The prospective legislation will provide a 2% limit on pensions provided through registered pension plans.

Mr. McCrossan: With a \$60,000 cap—

Mr. K. Horner: It is a cap of \$17.22 per year of service which is equivalent to the \$60,000 cap existing now. All plans, except the federal judges' plan, are registered plans. To maintain their registration status, these plans will have to amend their terms to meet the registration rules to be codified in the Income Tax Act.

It leaves open the possibility of continuing to provide supplemental benefits through an unregistered portion of a plan or a separate unregistered plan. In that case what Mr. Fuke said applies, that where the promise is unfunded, the RCA rules do not provide a basis for applying any tax because there is no contribution to purchase assets against which to apply the tax. There is only a promise.

The Chairman: In other words, there is no contribution by the employee and no contribution by the employer. There is just a promise and nothing to tax.

Mr. K. Horner: That is correct.

Mr. McCrossan: Mr. Horner, by a simple shift in mechanism, the non-taxable section can continue to pay offside benefits by virtue of promising their future taxing power, whereas an employee in the private sector would be very unwilling to accept such a nebulous promise without some indication that it was being funded.

[Translation]

privé qui ne sont pas appuyées par des contributions, nous ne les pénalisons pas. Par exemple, si une société promet à l'un de ses administrateurs qu'elle lui versera 100,000 dollars annuellement à sa retraite et que la dernière tranche de 40,000 dollars n'est garantie par aucune contribution. . . Nous ne nous occuperons pas de cela à l'heure actuelle, pour le secteur privé, parce qu'il n'y a pas de report d'impôts. Aucun mécanisme juridique ne nous le permet.

Le président: Vous deviez aussi nous parler de certaines promesses à propos de nouvelles lois. Où en êtes-vous?

M. Fuke: Nous avons entrepris la rédaction d'une loi pour les régimes à contribution qui ne satisfont pas aux nouvelles règles relatives à l'enregistrement.

M. McCrossan: J'ai entendu dire—et je ne mentionne cela que pour que ce soit clair—que ces modifications et les modifications subséquentes que l'on apportera à la loi sur les pensions ne portent pas sur les régimes sans contribution.

M. Keith Horner (chef, Analyses fiscales (Sécurité Sociale) Direction de la politique et de la législation de l'impôt, ministère des Finances): La nouvelle loi prévoira une limite de 2 p. 100 pour les pensions offertes en vertu des régimes enregistrés de retraite.

M. McCrossan: Jusqu'à concurrence de 60,000\$. . .

M. K. Horner: Il s'agit d'une limite de 17,22\$ pour chaque année de services, ce qui équivaut à la limite actuelle de 60,000\$. Tous les régimes sont des régimes enregistrés, à l'exception de ceux des juges de compétence fédérale. Pour que ces régimes demeurent enregistrés, il va falloir en modifier les conditions de manière à satisfaire aux nouvelles règles que renfermera la loi de l'impôt sur le revenu au sujet des régimes enregistrés.

On pourra toujours offrir des avantages additionnels par le biais de dispositions spéciales dans un régime ou de régimes distincts non-enregistrés. Ce que disait M. Fuke tout à l'heure s'applique dans ce cas, à savoir que lorsqu'un engagement n'est pas appuyé de contributions les règles de la convention de retraite ne permettent pas de prélever d'impôts puisqu'il n'y a pas de contribution qui permette l'achat d'actifs sur laquelle en prélever. Il n'y a qu'un engagement.

Le président: Autrement dit, les employés ne versent pas de cotisations et l'employeur ne verse pas de contribution. Il n'y a donc qu'une promesse, et rien sur quoi prélever de l'impôt.

M. K. Horner: C'est juste.

M. McCrossan: Monsieur Horner, par une simple modification, on peut toujours continuer à verser des prestations moyennant la promesse qu'on pourra un jour les imposer, mais un employé du secteur privé accepterait très difficilement une promesse aussi nébuleuse sans une indication quelconque qu'elle serait appuyée par des contributions.

[Texte]

Mr. K. Horner: That is true. Since I do not think there is a means for us to apply taxes to consolidated revenue funds, I think the resolution of that has to be political. It has to be a question of example with the plans, the treatment of civil servants and members of the legislature and Parliament.

Mr. Minaker: Mr. Chairman, could there be a clause stating that any minutes of meetings indicating a promise, a commitment of revenue or source of revenue in the future...? Could something like that be applied so they would be considered as being funded? I think there are new laws regulating the board members. Perhaps it would put pressure on them not to do it. I am asking if you can do it through the back door in some manner.

Normally if Manitoba Hydro or the University of Manitoba have such an agreement, it would be recorded in their minutes that it is a promise and a commitment. We would eliminate this. I am just wondering if it might put pressure on members of boards not to have such a plan.

The Chairman: It seems to me we ought to pass this matter. I do not think you can ever get at promises made in the air. I do not think there is any way to do it. Obviously you can get at funded matters and matters where there is a contribution or a fund, but if there is no fund and no contributions, how the hell can you ever get at it? And I think that applies to the private sector as well as the public sector. I think we are spinning our wheels here. Does anybody have any suggestion that we are not spinning our wheels? Why would we not just go for it, as is? At least we have stopped what abuses can be stopped here.

• 1230

Mr. Minaker: I did not get an answer to my question on this, Mr. Chairman.

Mr. McCrossan: The concern I had was that this is very effective in closing down the abuses in the private sector—

The Chairman: No question about that.

Mr. McCrossan: —and in the funded public sector. The sole area of abuse which does not appear to be touched is the area essentially covering those who design legislation.

The Chairman: Yes, but having said that, the fact is that as a government member you are supporting the government, and I guess what we ought to be doing is demanding the government do something about imposing on itself the same limitations that it expects to impose on taxpayers.

But how do you do that in the Income Tax Act, since the government does not pay taxes? How do you have an Income Tax Act that taxes the Government of Canada?

[Traduction]

M. K. Horner: C'est vrai. Puisque nous ne pouvons pas imputer d'impôts au fonds du revenu consolidé, je pense que la solution est d'ordre politique. Il faut donner l'exemple avec les régimes des fonctionnaires et des députés des assemblées législatives et du Parlement.

M. Minaker: Monsieur le président, pourrait-il y avoir un article qui prévoirait que tout procès verbal où serait stipulé une promesse, un engagement à l'égard de revenus ou de sources de revenus futurs...? Cela serait-il possible pour que ces engagements soient appuyés de contributions? Je crois qu'il y a des nouvelles lois qui régissent ce genre de choses pour les administrateurs. Cela pourrait peut-être les inciter à ne pas le faire. Serait-ce possible d'une manière détournée?

Normalement, si Hydro-Manitoba ou l'université du Manitoba avaient fait une telle promesse ou pris un tel engagement, ce serait dit dans leurs procès verbaux. Nous éliminerions cette pratique. Je me demande tout simplement si cela ne pourrait pas inciter les administrateurs à ne plus offrir de tels régimes.

Le président: J'ai l'impression que nous ferions mieux d'oublier cela. Je ne pense pas qu'on puisse s'attaquer à des promesses qui ne reposent sur rien. Je ne vois pas comment ce serait possible. On peut évidemment prélever des impôts sur des contributions ou des fonds, mais quand il n'y a ni fonds ni contributions, voulez-vous bien me dire ce qu'on peut faire? Et je pense que cela vaut autant pour le secteur privé que pour le secteur public. J'ai l'impression que nous discutons dans le vide. Sommes-nous tous de cet avis? Pourquoi ne pas laisser cela tel quel? Nous sommes à tout le moins parvenus à mettre un terme aux abus les plus flagrants.

M. Minaker: Je n'ai pas obtenu de réponse à ma question, monsieur le président.

M. McCrossan: L'inquiétude que j'avais est que c'est en effet très efficace pour mettre un terme aux abus dans le secteur privé...

Le président: Cela ne fait aucun doute.

M. McCrossan: ... et dans le secteur public. Le seul endroit où il y a abus, et qui ne semble pas touché, est celui des gens qui font les lois.

Le président: Oui, mais ceci dit, il n'en demeure pas moins qu'en tant que député, vous appuyez le gouvernement, et je suppose que ce que nous devrions faire, c'est exiger du gouvernement qu'il s'impose les mêmes limites qu'il entend imposer aux contribuables.

Mais comment cela pourrait-il s'articuler dans la loi de l'impôt sur le revenu puisque que le gouvernement ne paie pas d'impôts? Comment faire en sorte que la loi de l'impôt sur le revenu oblige le gouvernement du Canada à verser des impôts?

[Text]

Mr. McCrossan: Well, there are the provinces as well.

The Chairman: They do not pay taxes, and now—

Mr. McCrossan: And the municipalities.

The Chairman: I suppose, but the question is, how do you go about having an income tax that taxes municipalities, as a practical matter?

Mr. McCrossan: Well, there is a withholding tax; it was not an income tax. This establishes—

The Chairman: But you have to withhold against something. In other words, if they do not put up any money into a fund, you cannot get them. If they put the money into a fund, you grab it here. This stops the fund. But if they do not have a fund, what do you do?

Mr. McCrossan: Well, if that is the best the officials can come up with, I guess the clauses go through.

The Chairman: on that basis can I suggest we vote on these clauses and then adjourn?

Clauses 6 and 7 agreed to.

The Chairman: The meeting is adjourned until 3.30 p.m.

[Translation]

M. McCrossan: Oui, et cela vaut aussi pour les provinces.

Le président: Elles ne paient pas d'impôts, et maintenant. . .

M. McCrossan: Pas plus que les municipalités.

Le président: Oui, je suppose. Mais d'un point de vue pratique, comment faire en sorte qu'une loi oblige des municipalités à payer des impôts?

M. McCrossan: Il y a bien un impôt de retenu, mais ce n'est pas un impôt sur le revenu.

Le président: Mais pour retenir de l'impôt, il faut quelque chose sur quoi le retenir. Autrement dit, si elle ne contribue pas à une caisse, c'est impossible. Si elle contribue à une caisse, tout est possible. Mais s'il n'y a pas de contributions, que peut-on faire?

M. McCrossan: Si c'est tout ce que les hauts fonctionnaires ont à offrir, je suppose qu'il ne nous reste plus qu'à adopter les deux articles.

Le président: Ceci dit, je propose de procéder au vote sur ces deux articles et de lever ensuite la séance.

Les articles 6 et 7 sont adoptés.

Le président: La séance est levée jusqu'à 15h30.



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WITNESSES

*From the Tax Policy and Legislation Branch of the
Department of Finance:*

Len Farber, Director, Tax Policy and Legislation;

Brian Ernewein, Tax Policy Officer;

John Fuke, Associate to the Director General,
Legislative Affairs Directorate, Revenue Canada.

TÉMOINS

*De la Direction de la politique et de la législation de
l'impôt du ministère des Finances:*

Len Farber, directeur, Politique et législation de
l'impôt;

Brian Ernewein, agent de la politique de l'impôt;

John Fuke, associé du directeur général, Direction des
affaires législatives, Revenu Canada.

HOUSE OF COMMONS

Issue No. 131

Thursday, December 3, 1987

Chairman: Don Blenkarn

CHAMBRE DES COMMUNES

Fascicule n° 131

Le jeudi 3 décembre 1987

Président: Don Blenkarn

*Minutes of Proceedings and Evidence of the
Standing Committee on*

Finance and Economic Affairs

*Procès-verbaux et témoignages du Comité
permanent des*

Finances et des affaires économiques

RESPECTING:

Bill C-64, An Act to amend the Income Tax Act, a related Act, the Canada Pension Plan and the Unemployment Insurance Act, 1971

INCLUDING:

Thirteenth Report to the House

CONCERNANT:

Projet de loi C-64, Loi modifiant la Loi de l'impôt sur le revenu et la législation connexe ainsi que le Régime de pensions du Canada et la Loi de 1971 sur l'assurance-chômage

Y COMPRIS:

Treizième rapport à la Chambre

WITNESSES:

(See back cover)

TÉMOINS:

(Voir à l'endos)

Second Session of the Thirty-third Parliament,
1986-87

Deuxième session de la trente-troisième législature,
1986-1987

STANDING COMMITTEE ON FINANCE AND
ECONOMIC AFFAIRS

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Vice-Chairman: Robert E.J. Layton

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Suzanne Blais-Grenier
Michael Cassidy
Mary Collins
Simon de Jong
Murray Dorin
Raymond Garneau
Paul McCrossan
George Minaker
Aideen Nicholson
Norman Warner

(Quorum 7)

Marie Carrière

Clerk of the Committee

COMITÉ PERMANENT DES FINANCES ET DES
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Raymond Garneau
Paul McCrossan
George Minaker
Aideen Nicholson
Norman Warner

(Quorum 7)

Le greffier du Comité

Marie Carrière

REPORT TO THE HOUSE

Friday, December 4, 1987

The Standing Committee on Finance and Economic Affairs has the honour to present its

THIRTEENTH REPORT

In accordance with its Order of Reference of Tuesday, June 30, 1987, your Committee has considered Bill C-64, An Act to amend the Income Tax Act, a related Act, the Canada Pension Plan and the Unemployment Insurance Act, 1971, and has agreed to report it with the following amendments:

Clause 3

Strike out line 48, on page 3, and substitute the following:

“where before 1989 a taxpayer has not”

Strike out line 4, on page 4, and substitute the following:

“1988”

Strike out line 10, on page 4, and substitute the following:

“1990 and subsequent taxation years.”

Clause 15

Strike out line 9, on page 22, and substitute the following:

“Act or of a prescribed provincial pension plan) shall be included in computing the”

Strike out line 26, on page 22, and substitute the following:

“defined in section 3 of that Act or of a prescribed provincial pension plan) that”

Strike out line 23, on page 23 and substitute the following:

“property of the trust for no consideration or for consideration”

Strike out line 27, on page 23, and substitute the following:

“market value differs from the consideration or, if there is no consideration, the amount of the fair market value”

Clause 17

Add, immediately after line 45, on page 26, the following:

“17. (1) All that portion of paragraph 60(j.1) of the said Act preceding subparagraph (iii) thereof is repealed and the following substituted therefor:

Transfer of retiring allowances

“(j.1) such part of the aggregate of all amounts each of which is an amount paid to the taxpayer by an employer, or under a retirement

RAPPORT À LA CHAMBRE

Le vendredi 4 décembre 1987

Le Comité permanent des finances et des affaires économiques a l'honneur de présenter son

TREIZIÈME RAPPORT

Conformément à son ordre de renvoi du mardi 30 juin 1987, votre Comité a étudié le projet de loi C-64, Loi modifiant la Loi de l'impôt sur le revenu et la législation connexe ainsi que le Régime de pensions du Canada et la Loi de 1971 sur l'assurance-chômage, et a convenu d'en faire rapport avec les modifications suivantes:

Article 3

Retrancher la ligne 43, à la page 3, et la remplacer par ce qui suit:

«dans le cas où, avant 1989, une contri-»

Retrancher la ligne 4, à la page 4, et la remplacer par ce qui suit:

«le 31 décembre 1988»

Retrancher la ligne 11, à la page 4, et la remplacer par ce qui suit:

«années d'imposition 1990 et suivantes»

Article 15

Retrancher la ligne 9, à la page 22, et la remplacer par ce qui suit:

«de l'article 3 de cette loi ou d'un régime provincial de pensions visé par règlement—doit être inclus»

Retrancher la ligne 27, à la page 22, et la remplacer par ce qui suit:

«cette loi ou d'un régime provincial de pensions visé par règlement—qui serait, si ce droit n'avait»

Retrancher les lignes 16 et 17, à la page 23, et les remplacer par ce qui suit:

«la différence éventuelle entre la juste valeur marchande et la contrepartie ci-après ou, à défaut de contrepartie, la juste valeur marchande:»

Retrancher la ligne 31, à la page 23, et la remplacer par ce qui suit:

«d'en jouir sans contrepartie ou en contrepartie d'un montant»

Article 17

Ajouter, immédiatement après la ligne 46, à la page 26, ce qui suit:

«17. (1) Le passage de l'alinéa 60 j .1) de la même loi qui précède le sous-alinéa (iii) est abrogé et remplacé par ce qui suit:

Transfert d'allocations de retraite

«j.1) la partie du total des montants dont chacun représente un montant versé au contribuable à titre d'allocation de retraite par un employeur ou

compensation arrangement to which the employer has contributed, as a retiring allowance and included in computing his income for the year by virtue of subparagraph 56(1)(a)(ii) or paragraph 56(1)(x) as

(i) is designated by the taxpayer in his return of income under this Part for the year,

(ii) does not exceed the amount, if any, by which the aggregate of

(A) \$2,000 times the number of years during which the employee or former employee in respect of whom the payment was made (in this paragraph referred to as the "retiree") was employed by the employer or a person related to the employer, and

(B) \$1,500 times the number by which the number of years described in clause (A) exceeds the number that can reasonably be regarded as the equivalent number of years in respect of which employer contributions under either a pension fund or plan or a deferred profit sharing plan of the employer or a person related to the employer had vested in the retiree at the time of the payment exceeds the aggregate of

(C) all amounts deducted under this paragraph in respect of amounts paid before the year in respect of the retiree by the employer or a person related to the employer, or under a retirement compensation arrangement to which the employer or the person has contributed, and

(D) all amounts deducted under paragraph (t) in computing the retiree's income for the year, and""

Strike out line 1, on page 27, and substitute the following:

"(2) Section 60 of the said Act is further"

Strike out lines 44 and 45, on page 28, and substitute the following:

"(3) Subsection (1), and paragraphs 60(t) and (u) of the said Act as enacted by subsection (2), are appli-

Strike out lines 47 and 48, on page 28, and substitute the following:

"(4) Paragraph 60(v) of the said Act, as enacted by subsection (2), is applicable to"

Clause 18

Strike out line 18, on page 31, and substitute the following:

dans le cadre d'une convention de retraite à laquelle l'employeur a cotisé et inclus dans le calcul du revenu du contribuable pour l'année, en vertu du sous-alinéa 56(1) a)(ii) ou de l'alinéa 56(1) x), qui:

(i) est indiquée par le contribuable dans sa déclaration de revenu pour l'année en vertu de la présente partie,

(ii) ne dépasse pas l'excédent éventuel du total

(A) du produit de 2 000 \$ par le nombre d'années pendant lesquelles l'employé ou ancien employé à l'égard duquel le versement a été fait—appelé «retraité» au présent alinéa—était au service de l'employeur ou d'une personne liée à celui-ci,

(B) du produit de 1 500 \$ par l'excédent du nombre d'années visé à la division (A) sur le nombre qu'il est raisonnable de considérer comme le nombre équivalent d'années pour lesquelles les cotisations de l'employeur en vertu de quelque caisse ou régime de pensions ou d'un régime de participation différée aux bénéfices de l'employeur ou d'une personne liée à celui-ci étaient acquises au retraité au moment du versement, sur le total

(C) des montants déduits en vertu du présent alinéa au titre des sommes versées avant l'année pour le retraité par l'employeur ou une personne liée à celui-ci ou dans le cadre d'une convention de retraite à laquelle l'employeur ou la personne a cotisé,

(D) des montants déduits selon l'alinéa t) dans le calcul du revenu du retraité pour l'année, et""

Retrancher la ligne 1, à la page 27, et la remplacer par ce qui suit:

«(2) L'article 60 de la même loi est»

Retrancher les lignes 33 et 34, à la page 28, et les remplacer par ce qui suit:

«(3) Le paragraphe (1) et les alinéas 60 t) et u) de la même loi, édictés par le paragraphe (2), s'appliquent»

Retrancher les lignes 36 et 37, à la page 28, et les remplacer par ce qui suit:

«(4) L'alinéa 60 v) de la même loi, édicté par le paragraphe (2), s'applique aux années»

Article 18

Retrancher les lignes 13 à 17, à la page 31, et les remplacer par ce qui suit:

“(3), (4) or (5) applies, or would apply if the corporation had continued to own the property, to the corpo-”

Strike out line 22, on page 31, and substitute the following:

“66.7(12), (13) or (17), as the case may”

Strike out line 5, on page 32, and substitute the following:

“(1), (2), (3), (4) or (5) applies, or would apply if the corporation had continued to own the property, to”

Strike out line 14, on page 32, and substitute the following:

“applies, or would apply if the other corporation had continued to own the property, to the other corporation in”

Strike out line 17, on page 32, and substitute the following:

“66.7(14), (15) or (17), as the case may”

Add, immediately after line 26, on page 32, the following:

“(8.1) Paragraph 66(15)(h) of the said Act is amended by striking out the word “and” at the end thereof and by adding thereto after subparagraph (vii) thereof the following:

“or a corporation all or substantially all of the assets of which are shares of the capital stock of one or more other corporation that are related to the corporation (otherwise than by reason of a right referred to in paragraph 251(5)(b) and whose principal business is described in any of subparagraphs (i) to (vii);”

Clause 22

Add, immediately after line 43, on page 37, the following:

“22.1 (1) Section 66.6 of the said Act is repealed and the following substituted therefor:

Application of subsections 66.7(1), (2), etc.

“66.6 (1) Where a particular corporation has at any time after July 19, 1985 acquired by purchase, amalgamation, merger, winding-up or otherwise,

«acquis dans une circonstance où le paragraphe 29(25) des *Règles de 1971 concernant l'application de l'impôt sur le revenu* ou le paragraphe 66.7(1), (2), (3), (4) ou (5) s'applique à la corporation ou se serait appliqué à la corporation si celle-ci avait continué d'être propriétaire de l'avoir,»

Retrancher la ligne 19, à la page 31, et la remplacer par ce qui suit:

«paragraphe 66.7(12), (13) ou (17), dans»

Retrancher les lignes 1 à 5, à la page 32, et les remplacer par ce qui suit:

«dans une circonstance où le paragraphe 29(25) des *Règles de 1971 concernant l'application de l'impôt sur le revenu* ou le paragraphe 66.7(1), (2), (3), (4) ou (5) s'applique à la corporation ou se serait appliqué à la corporation si celle-ci avait continué d'être propriétaire de l'avoir,»

Retrancher les lignes 9 à 13, à la page 32, et les remplacer par ce qui suit:

«où le paragraphe 29(25) des *Règles de 1971 concernant l'application de l'impôt sur le revenu* ou le paragraphe 66.7(1), (2), (3), (4) ou (5) s'applique à l'autre corporation ou se serait appliqué à l'autre corporation si celle-ci avait continué d'être propriétaire de l'avoir,»

Retrancher la ligne 15, à la page 32, et la remplacer par ce qui suit:

«paragraphe 66.7(14), (15) ou (17), dans»

Ajouter, immédiatement après la ligne 25, à la page 32, ce qui suit:

«(8.1) L'alinéa 66(15) h) de la même loi est modifié par suppression du mot «et» à la fin du sous-alinéa (vii) et par adjonction de ce qui suit:

«ou une corporation dont la totalité, ou presque, de l'actif consiste en actions du capital-actions d'une ou de plusieurs autres corporations liées à la corporation autrement qu'à cause d'un droit visé à l'alinéa 251(5) b), et dont l'entreprise principale est visée à l'un des sous-alinéas (i) à (vii);»

Article 22

Ajouter, immédiatement après la ligne 42, à la page 37, ce qui suit:

«22.1 (1) L'article 66.6 de la même loi est abrogé et remplacé par ce qui suit:

Exception aux règles concernant les corporations remplaçantes

«66.6 (1) Le paragraphe 29(25) des *Règles de 1971 concernant l'application de l'impôt sur le revenu* et les paragraphes 66.7(1), (2), (3) et (4) ne s'appliquent

from another person who is exempt from tax under this Part on his taxable income (other than a corporation that is referred to in paragraph 149(1)(d) and that is a principal-business corporation within the meaning assigned by paragraph 66(15)(h) all or substantially all of the person's Canadian resource properties, subsection 29(25) of the *Income Tax Application Rules, 1971* and subsections 66.7(1), (2), (3) and (4) do not apply to the particular corporation in respect of the acquisition of the properties except to the extent that the properties were acquired by it before 1987 pursuant to an agreement in writing made by it before July 20, 1985.

Application of subsection 66.7(5)

(2) Where a particular corporation has at any time after July 19, 1985 acquired by purchase, amalgamation, merger, winding-up or otherwise, from another person who is exempt from tax under this Part on his taxable income all or substantially all of the person's Canadian resource properties, subsection 66.7(5) does not apply to the particular corporation in respect of the acquisition of the properties except to the extent that the properties were acquired by it before 1987 pursuant to an agreement in writing made by it before July 20, 1985."

(2) Subsection (1) is applicable to taxation years ending after February 17, 1987."

Clause 23

Strike out lines 38 and 39, on page 43, and substitute the following:

"(ii) the aggregate of all other amounts deducted under subsection"

Strike out lines 7 and 8, on page 45, and substitute the following:

"(ii) the aggregate of all other amounts deducted under subsection"

Strike out lines 19 to 37, on page 45, and substitute the following:

"tions (1) to (5) do not apply

(a) in respect of a Canadian resource property or a foreign resource property acquired by way of an amalgamation to which subsection 87(1.2) applies or a winding-up to which subsection 88(1.5) applies; or

(b) to permit, in respect of the acquisition by a corporation before February 18, 1987 of a Canadian resource property or a foreign resource property, a deduction by the corporation of an amount that the corporation would not have been entitled to deduct under section 29 of the *Income Tax Application Rules, 1971* or section 66, 66.1, 66.2 or 66.4 if those sections, as they read in their

pas à la corporation qui acquiert, à une date postérieure au 19 juillet 1985, par achat, fusion, unification, liquidation ou autrement, la totalité ou presque des avoirs miniers canadiens d'une autre personne qui est exonérée de l'impôt prévu par la présente partie sur son revenu imposable mais qui n'est pas une corporation visée à l'alinéa 149(1) d) exploitant une entreprise principale au sens de l'alinéa 66(15) h); ces paragraphes s'appliquent toutefois si la corporation acquiert les avoirs avant 1987 conformément à une convention écrite conclue par celle-ci avant le 20 juillet 1985.

Exception aux règles concernant les corporations remplaçantes y compris celles de l'État

(2) Le paragraphe 66.7(5) ne s'applique pas à la corporation qui acquiert, à une date postérieure au 19 juillet 1985, par achat, fusion, unification, liquidation ou autrement, la totalité ou presque des avoirs miniers canadiens d'une autre personne qui est exonérée de l'impôt prévu par la présente partie sur son revenu imposable; ce paragraphe s'applique toutefois si la corporation acquiert les avoirs avant 1987 conformément à une convention écrite conclue par celle-ci avant le 20 juillet 1985."

(2) Le paragraphe (1) s'applique aux années d'imposition se terminant après le 17 février 1987."

Article 23

Retrancher les lignes 40 et 41, à la page 43, et les remplacer par ce qui suit:

«(ii) le total des autres montants déduits—en vertu du paragraphe»

Retrancher les lignes 12 et 13, à la page 45, et les remplacer par ce qui suit:

«(ii) le total des autres montants déduits—en vertu du paragraphe»

Retrancher les lignes 26 à 42, à la page 45, et les remplacer par ce qui suit:

«a) soit acquis par suite d'une fusion à laquelle le paragraphe 87(1.2) s'applique ou d'une liquidation à laquelle le paragraphe 88(1.5) s'applique;

b) soit acquis avant le 18 février 1987 par une corporation afin de lui permettre de déduire un montant qu'elle n'aurait pas eu le droit de déduire en vertu de l'article 29 des *Règles de 1971* concernant l'application de l'impôt sur le revenu ou des articles 66, 66.1, 66.2 ou 66.4 si ces articles dans leur version applicable aux années d'imposition se terminant avant le 18 février

application to taxation years ending before February 18, 1987, applied to taxation years ending after February 17, 1987.”

Strike out line 3, on page 46, and substitute the following:

“property used by”

Strike out line 7, on page 46, and substitute the following:

“in subparagraphs 66(15)(h)(i) to (vii) as”

Strike out line 13, on page 47, and substitute the following:

“property used by the”

Strike out line 17, on page 47, and substitute the following:

“in subparagraphs 66(15)(h)(i) to (vii) as”

Strike out line 26, on page 49, and substitute the following:

“this Act, other than subsections 66(12.6), (12.62), (12.64) and (12.71),”

Strike out line 15, on page 55, and substitute the following:

Reduction of Canadian resource expenses

“(12) Where in a taxation year and after June 5, 1987 an origi-”

Strike out line 29, on page 55, and substitute the following:

“him except for the purposes of making a deduction under subsection 66(1) or (2) for the year and of determin-”

Strike out lines 40 and 41, on page 55, and substitute the following:

“amount, if any, by which the amount thereof determined immediately after the disposition exceeds the amount claimed by him under subsection 66.1(2) or (3) for the year;”

Strike out line 19, on page 56, and substitute the following:

“the purposes of making a deduction under that section for the year and of determining the amount”

Strike out line 40, on page 56, and substitute the following:

“(14) Where, in a taxation year and after June 5, 1987 a prede-”

Strike out line 7, on page 57, and substitute the following:

“properties except for the purposes of making a deduction under subsection (1) or (3) for the year.”

1987, s'étaient appliqués aux années d'imposition se terminant après le 17 février 1987.»

Retrancher la ligne 2, à la page 46, et la remplacer par ce qui suit:

«presque, des biens»

Retrancher la ligne 7, à la page 46, et la remplacer par ce qui suit:

«néas 66(15)(h)(i) à (vii);»

Retrancher la ligne 7, à la page 47, et la remplacer par ce qui suit:

«presque, des biens»

Retrancher la ligne 12, à la page 47, et la remplacer par ce qui suit:

«néas 66(15) h)(i) à (vii);»

Retrancher la ligne 18, à la page 49, et la remplacer par ce qui suit:

«présente loi—sauf les paragraphes 66(12.6), (12.62), (12.64) et»

Retrancher la ligne 15, à la page 55, et la remplacer par ce qui suit:

Réduction des frais relatifs à des ressources au Canada

«(12) Dans le cas où, au cours d'une année d'imposition et après le 5 juin»

Retrancher la ligne 30, à la page 55, et la remplacer par ce qui suit:

«celui-ci, sauf pour effectuer la déduction prévue au paragraphe 66(1) ou (2) pour l'année et calculer le mon-»

Retrancher les lignes 39 à 42, à la page 55, et les remplacer par ce qui suit:

«visée au sous-alinéa (3)a)(i), l'excédent éventuel des frais cumulatifs d'exploration au Canada calculés immédiatement après la disposition sur le montant qu'il a déduit pour l'année en application du paragraphe 66.1(2) ou (3) doit être déduit;»

Retrancher la ligne 25, à la page 56, et la remplacer par ce qui suit:

«obligé, sauf pour effectuer la déduction prévue à cet article pour l'année et calculer le mon-»

Retrancher la ligne 46, à la page 56, et la remplacer par ce qui suit:

«miniers canadiens qui dispose au cours d'une année d'imposition et après le»

Retrancher la ligne 7, à la page 57, et la remplacer par ce qui suit:

«de ces avoirs, sauf pour effectuer une déduction pour l'année en application du paragraphe (1) ou (3).»

Add, immediately after line 35, on page 57, the following:

Restriction on deductions

“(17) Where in a particular taxation year and before June 6, 1987 a person disposed of a Canadian resource property or a foreign resource property in circumstances in which any of subsection 29(25) of the *Income Tax Application Rules, 1971* and subsections (1) to (5) applies, no deduction in respect of an expense incurred before the property was disposed of may be made under this section or section 66, 66.1, 66.2 or 66.4 by the person in computing his income for a taxation year subsequent to the particular taxation year.”

Clause 24

Strike out line 30, on page 58, and substitute the following:

“Act, the vendor shall, where the subsequent disposition occurs within three years after that time, be deemed to have”

Strike out line 40, on page 58, and substitute the following:

“transactions commenced;”

Strike out line 2, on page 59, and substitute the following:

“the series commenced; or

(c) where the vendor is a partnership, a person who was neither

(i) a majority interest partner (within the meaning assigned by subsection 97(3.1)) of the partnership immediately before the series commenced, nor

(ii) a person who was (otherwise than by virtue of a right referred to in paragraph 251(5)(b)) related to a person described in subparagraph (i) immediately before the series commenced.”

Clause 25

Strike out line 6, on page 60, and substitute the following:

“Act or of a prescribed provincial pension), either directly or indirectly, by”

Clause 26

Add, immediately after line 20, on page 61, the following:

“26.1 (1) Subsection 74.5(12) of the said Act is amended by striking out the word “or” at the end of paragraph (a) thereof and by adding thereto, immediately after paragraph (a) thereof, the following paragraph:

“(a.1) as an amount contributed under a provincial pension plan prescribed for the

Ajouter, immédiatement après la ligne 32, à la page 57, ce qui suit:

Restriction aux déductions

“(17) Dans le cas où, au cours d'une année d'imposition donnée et avant le 4 juin 1987, une personne dispose d'un avoir minier canadien ou d'un avoir minier étranger dans une circonstance où le paragraphe 29(25) des *Règles de 1971 concernant l'application de l'impôt sur le revenu* ou l'un des paragraphes (1) à (5) s'applique, aucune déduction au titre des frais engagés avant la disposition ne peut être faite par cette personne en application du présent article ou de l'article 66, 66.1, 66.2 ou 66.4 dans le calcul de son revenu pour une année d'imposition postérieure à l'année donnée.”

Article 24

Retrancher la ligne 24, à la page 58, et la remplacer par ce qui suit:

«disposition ultérieure, qui a lieu dans les trois ans suivant cette date, du bien ou d'un bien»

Ajouter, immédiatement après la ligne 47, à la page 58, ce qui suit:

«c) soit, si le vendeur est une société, une personne qui n'était:

(i) ni un associé détenant une participation majoritaire—au sens du paragraphe 97(3.1)—de la société immédiatement avant le début de la série,

(ii) ni une personne qui était liée à un associé visé au sous-alinéa (i) immédiatement avant le début de la série—sauf à cause d'un droit visé à l'alinéa 251(5) b)—»

Article 25

Retrancher la ligne 6, à la page 60, et la remplacer par ce qui suit:

«cette loi ou d'un régime provincial de pensions visé par règlement—directement ou indirectement,»

Article 26

Ajouter, immédiatement après la ligne 22, à la page 61, ce qui suit:

«26.1 (1) Le paragraphe 74.5(12) de la même loi est modifié par insertion, après l'alinéa a), de ce qui suit:

«a.1) soit en paiement d'une cotisation dans le cadre d'un régime provincial de pensions visé par

purposes of paragraph 60(v) under which the individual's spouse is, immediately after the transfer, the annuitant (within the meaning assigned by subsection 146(1)) or the owner of the account under the plan to the extent that the amount does not exceed the amount by which the amount prescribed for the purposes of subparagraph 60(v)(ii) for the year in respect of the plan exceeds the aggregate of all other contributions to the plan for the year to the account of the spouse under the plan; or"

(2) Subsection (1) is applicable to the 1987 and subsequent taxation years."

Clause 29

Strike out line 17, on page 66, and substitute the following:

"years ending after February 17, 1987 with respect to amalgamations occurring after 1982, and with respect to amalgamations occurring after December 14, 1975 and before 1983 where an election has been made under subsection 87(1.2) as that subsection read at that time."

Clause 30

Strike out line 10, on page 73, and substitute the following:

"tion years ending after February 17, 1987 with respect to windings-up commencing after 1982."

Clause 40

Strike out line 10, on page 80, and substitute the following:

"the property;"

Strike out line 19, on page 80, and substitute the following:

"income under this Part for the taxation year that ended immediately before that time or in"

Strike out line 41, on page 80, and substitute the following:

"to the proceeds of disposition thereof; and

(f) each amount that by virtue of paragraph (d) or (e) is a capital loss or gain of the corporation from a disposition of a property for the taxation year that ended immediately before that time shall, for the purposes of paragraph 89(1)(b), be deemed to be a capital loss or gain, as the case may be, of the corporation from the disposition of the property immediately before the time that a capital property of the corporation in respect of which paragraph (e) would be applicable would be deemed by that paragraph to have been disposed of by the corporation."

règlement pour l'application de l'alinéa 60v), dont le conjoint du particulier est, immédiatement après le transfert, le rentier—au sens du paragraphe 146(1)—ou le propriétaire d'un compte dans le régime, dans la mesure où cette cotisation ne dépasse pas l'excédent du montant visé par règlement pour l'application du sous-alinéa 60v)(ii) pour l'année en ce qui concerne le régime sur le total des autres cotisations versées pour l'année au compte du conjoint dans le régime;»

(2) Le paragraphe (1) s'applique aux années d'imposition 1987 et suivantes.»

Article 29

Retrancher la ligne 19, à la page 66, et la remplacer par ce qui suit:

«février 1987 pour ce qui est des fusions qui ont lieu après 1982 et de celles qui ont eu lieu après le 14 décembre 1975 et avant 1983 dans le cas où le choix prévu au paragraphe 87(1.2), dans sa version alors applicable, a été fait.»

Article 30

Retrancher la ligne 10, à la page 73, et la remplacer par ce qui suit:

«février 1987 pour ce qui est des liquidations commençant après 1982.»

Article 40

Retrancher la ligne 11, à la page 80, et la remplacer par ce qui suit:

«avant cette date;»

Retrancher la ligne 23, à la page 80, et la remplacer par ce qui suit:

«pour l'année d'imposition se terminant immédiatement avant cette date ou sur le formulaire règle-»

Retrancher la ligne 42, à la page 80, et la remplacer par ce qui suit:

«déclaration ou sur le formulaire; et

«f) pour l'application de l'alinéa 89(1)b), chaque montant qui constitue, selon l'alinéa d) ou e), une perte en capital ou un gain en capital de la corporation, résultant de la disposition d'un bien, pour l'année d'imposition se terminant immédiatement avant cette date est réputé être une perte en capital ou un gain en capital, selon le cas, de la corporation résultant de la disposition du bien juste avant le moment où la corporation serait réputée, selon l'alinéa e), avoir disposé d'un bien en immobilisation auquel cet alinéa serait applicable.»»

Clause 41

In the French version only, strike out line 2, on page 86, and substitute the following:

“251(5)(b)—,”

Clause 42

Strike out line 37, on page 88, and substitute the following:

“of a prescribed class to the vendor and the vendor's capital”

Clause 45

In the French version only, strike out line 35, on page 91, and substitute the following:

“d.1), d.2), d.3), f) ou j) ou”

Clause 49

In the English version only, strike out line 21, on page 98, and substitute the following:

“deposit insurance corporation,”

Add, immediately after line 24, on page 98, the following:

“(E) to acquire shares of the capital stock of a member institution in financial difficulty, or”

Add, immediately after line 29, on page 98, the following:

“(2.1) Subclause 137.1(5)(a)(i)(B)(II) of the said Act is repealed and the following substituted therefor:

“(II) the cost amount to the corporation of its investment property was at least 50% of the cost amount to it of all its property (other than a debt obligation of, or a share of the capital stock of, a member institution issued by the member institution at a time when it was in financial difficulty, or)”

Strike out line 12, on page 101, and substitute the following:

“(8) Subsections (2.1), (3) and (4) are applicable”

Clause 50

Strike out line 21, on page 103, and substitute the following:

“June 5, 1987, other than where a corporation becomes exempt from tax under Part I of the said Act on its taxable income after that day as a result of the acquisition of shares of the capital stock of the corporation or of another corporation pursuant to

(i) an agreement entered into on or before that day, or

(ii) a take-over bid made in accordance with the applicable securities legislation in Canada and a take-over bid circular or similar document to give notice to the public of the take-over bid was filed

Article 41

Dans la version française seulement, retrancher la ligne 2, à la page 86, et la remplacer par ce qui suit:

«251(5)b)—,»

Article 42

Retrancher la ligne 34, à la page 88, et la remplacer par ce qui suit:

«amortissable d'une catégorie prescrite pour le vendeur à la date»

Article 45

Dans la version française seulement, retrancher la ligne 35, à la page 91, et la remplacer par ce qui suit:

«d.1), d.2), d.3), f) ou j) ou»

Article 49

Dans la version anglaise seulement, retrancher la ligne 21, à la page 98, et la remplacer par ce qui suit:

«deposit insurance corporation»

Ajouter, immédiatement après la ligne 25, à la page 98, ce qui suit:

«(E) soit à acquérir des actions du capital-actions d'une institution membre en difficulté financière,»

Ajouter, immédiatement après la ligne 31, à la page 98, ce qui suit:

«(2.1) La division 137.1(5)a)(i)(B)(II) de la même loi est abrogée et remplacée par ce qui suit:

«(II) le coût indiqué, pour la corporation, de ses biens de placement constituait au moins 50 % du coût indiqué, pour elle, de tous ses biens—à l'exclusion des titres de créance et des actions du capital-actions d'une institution membre émis par celle-ci alors qu'elle était en difficulté financière—, ou»

Retrancher la ligne 6, à la page 101, et la remplacer par ce qui suit:

«(8) Les paragraphes (2.1), (3) et (4) s'appliquent»

Article 50

Retrancher la ligne 26, à la page 103, et la remplacer par ce qui suit:

«imposable, sauf si elle le devient par suite de l'acquisition d'actions de son propre capital-actions ou de celui d'une autre corporation en vertu:

(i) soit d'une convention conclue avant le 6 juin 1987,

(ii) soit d'une offre publique d'achat qui a été faite conformément à la législation sur les valeurs mobilières applicable au Canada et qui a été annoncée publiquement par une note

with a public authority or stock exchange in Canada on or before that day.”

Clause 54

Strike out lines 27 to 29, on page 106, and substitute the following:

Interest on instalments

“(2.2) Notwithstanding subsections (1) and (2), the total amount of interest payable by a taxpayer (other than a testamentary trust) under those subsections for the”

Strike out line 1, on page 107, and substitute the following:

“taxpayer under subsections (1) and (2) in respect”

Clause 57

Strike out line 12, on page 108, and substitute the following:

“been acquired by the corporation or any other person or a partner-”

Strike out line 21, on page 108, and substitute the following:

“(c) one of the main purposes of the transac-”

Strike out lines 43 and 44, on page 108, and substitute the following:

“for a share of the capital stock of a corporation, the person or”

Strike out lines 6 to 10, on page 109, and substitute the following:

“(b) a distribution of corporate surplus by an acquiring corporation shall be deemed to have occurred where the consideration for the acquisition of a share is provided or is to be provided, directly or indirectly in any manner whatever, by the acquiring corporation and that consideration exceeded the paid-up capital of the share immediately before the acquisition.”

Strike out line 15, on page 109, and substitute the following:

“tions or events to the extent that the subsection has”

Strike out line 19, on page 109, and substitute the following:

Restrictions

“(4) For greater certainty, subsection (1) does not apply with”

d’information ou un document analogue produit avant le 6 juin 1987 auprès d’un organisme public ou d’une bourse de valeurs au Canada.»

Article 54

Retrancher les lignes 22 à 28, à la page 106, et les remplacer par ce qui suit:

Exception

«(2.2) Par dérogation aux paragraphes (1) et (2), le total des intérêts, sur l’impôt ou les acomptes provisionnels payables pour une année d’imposition, qu’un contribuable—à l’exception d’une fiducie testamentaire—doit verser en application de ces paragraphes pour la période allant du premier jour de cette année où une fraction d’impôt ou un acompte provisionnel est payable»

Retrancher la ligne 42, à la page 106, et la remplacer par ce qui suit:

«période en application des paragraphes (1) et»

Article 57

Retrancher la ligne 6, à la page 108, et la remplacer par ce qui suit:

«131(8)—dont elle-même, une autre personne ou une société»

Retrancher les lignes 23 et 24, à la page 108, et les remplacer par ce qui suit:

«l’un des principaux objets de l’opération ou de la série d’opérations ou d’événements est»

Retrancher la ligne 35, à la page 108, et la remplacer par ce qui suit:

«capital-actions d’une corporation»

Retrancher les lignes 4 à 8, à la page 109, et les remplacer par ce qui suit:

«b) un surplus est réputé libéré par la corporation visée au paragraphe (1) quand la contrepartie de l’acquisition d’une action, d’une part, est fournie, ou doit l’être, par cette corporation directement ou indirectement de quelque façon que ce soit et, d’autre part, dépasse le capital versé au titre de cette action immédiatement avant l’acquisition.»

Retrancher la ligne 13, à la page 109, et la remplacer par ce qui suit:

«ments dans la mesure où il s’applique déjà à une acquisition»

Retrancher la ligne 16, à la page 109, et la remplacer par ce qui suit:

Restrictions

«(4) Il est entendu que le paragraphe (1) ne s’applique pas»

Strike out lines 30 to 33, on page 109, and substitute the following:

“or more persons or partnerships (which persons or partnerships are referred to in this paragraph as the “purchaser”) unless the purchaser was not dealing at arm’s length with the person or partnership that controlled or all of the persons or partnerships that were part of a group that”

Strike out line 17, on page 111, and substitute the following:

“of an acquiring corporation to the extent that subsec-”

Clause 62

In the French version only, strike out line 2, on page 116, and substitute the following:

“que les montants ainsi payés font”

Strike out line 30, on page 117, and substitute the following:

“(c) an amount equal to twice the amount of any premium paid in respect of the”

Strike out line 19, on page 119, and substitute the following:

“more than 60 of the 72 months preced-”

Strike out lines 16 and 17, on page 121, and substitute the following:

“chase pursuant to the terms of an arrangement established before October 9, 1986 and not materially altered after October 8, 1986.”

Clause 67

Strike out lines 39 and 40, on page 125, and substitute the following:

“required under subsection 153(1) in respect of a contribution under a retirement”

Strike out line 19, on page 127, and substitute the following:

“tances in respect of amounts paid after”

Clause 69

Strike out line 31, on page 130, and substitute the following:

“to be or may be received or enjoyed by any person”

Strike out line 31, on page 132, and substitute the following:

“before October 9, 1986 or established after October 8, 1986 pursuant to an agreement between a taxpayer and

Retrancher les lignes 25 à 31, à la page 109, et les remplacer par ce qui suit:

«sociétés sauf si ces personnes ou sociétés avaient un lien de dépendance avec la personne ou société qui, immédiatement avant le début de la série, contrôlait la corporation visée ou la corporation remplacée ou avec toutes les personnes ou sociétés qui faisaient partie d’un groupe qui, immédiatement avant le début de la série, contrôlaient l’une ou l’autre corporation;»

Retrancher la ligne 12, à la page 111, et la remplacer par ce qui suit:

«de la corporation visée dans la mesure où le paragraphe»

Article 62

Dans la version française seulement, retrancher la ligne 2, à la page 116, et la remplacer par ce qui suit:

«que les montants ainsi payés font»

Retrancher les lignes 28 à 31, à la page 117, et les remplacer par ce qui suit:

«c) le double de toute prime versée ou de tout remboursement d’avance sur police, au titre du droit dans la police, est réputé être une cotisation versée dans le cadre de la»

Retrancher la ligne 15, à la page 119, et la remplacer par ce qui suit:

«60 des 72 mois précédant la date où les»

Retrancher les lignes 15 et 16, à la page 121, et les remplacer par ce qui suit:

«ment de prime ou par achat conformément à un mécanisme établi avant le 9 octobre 1986 et dont les modalités n’ont pas fait l’objet de modifications de fond après le 8 octobre 1986.»

Article 67

Retrancher la ligne 39, à la page 125, et la remplacer par ce qui suit:

«l’exige le paragraphe 153(1), au titre d’une»

Retrancher la ligne 16, à la page 127, et la remplacer par ce qui suit:

«tants remis au titre de montants payés»

Article 69

Retrancher les lignes 37 et 38, à la page 130, et les remplacer par ce qui suit:

«portant à des avantages que doit ou peut recevoir ou dont doit ou peut jouir une personne au»

Retrancher la ligne 36, à la page 132, et la remplacer par ce qui suit:

«—établi avant le 9 octobre 1986 ou établi après le 8 octobre 1986 conformément à une convention conclue

an employer or former employer of the taxpayer entered into before October 9, 1986 (in this subsection”

Clause 70

Strike out line 29, on page 133, and substitute the following:

“(a) subject to paragraph (c),”

Strike out lines 41 to 46, on page 133, and substitute the following:

“the taxation year of the corporation that would, but for this subsection, have been its last taxation year ending before that time and would, but for this paragraph, have ended within the seven day period ending immediately before that time, that taxation year shall, except where control of the corporation has been acquired by a person or group of persons within the seven day period ending immediately before that time, be deemed to end immediately”

Strike out line 13, on page 134, and substitute the following:

“ing entered into on or before that date, except that no return of income required to be filed under the said Act by a corporation for a taxation year that is deemed by subsection 249(4) of the said Act, as enacted by subsection (1), to have ended or commenced, as the case may be, be filed before the day that is 90 days after the day on which this Act is assented to.”

Clause 71

Add, immediately after line 4, on page 136, the following:

“71.1 (1) Paragraph 259(1)(b) of the said Act is repealed and the following substituted therefor:

“(b) to hold at that time that proportion (referred to in this subsection as his “specified portion”) of each property of the trust that the number of units of the trust held by the taxpayer at that time is of the number of units of the trust outstanding at that time, and the cost amount to the trust of the taxpayer’s specified portion of each such property shall be deemed to be the cost amount to the taxpayer of his specified portion of the property;”

(2) Subsection (1) is applicable with respect to periods occurring after 1985.”

The Committee has ordered a reprint of Bill C-64, as amended, for the use of the House of Commons at the report stage.

A copy of the relevant Minutes of Proceedings and evidence relating to this Bill (*Issue Nos. 78, 79, 126, 127, 129, 130 and 131 which includes this report*) is tabled.

avant le 9 octobre 1986 entre un contribuable et son employeur ou ancien employeur (appelé»

Article 70

Retrancher la ligne 25, à la page 133, et la remplacer par ce qui suit:

«a) sous réserve de l’alinéa c), l’an-»

Retrancher les lignes 35 à 42, à la page 133, et les remplacer par ce qui suit:

«aux paragraphes (1) et (3), l’année d’imposition de la corporation qui, sans le présent paragraphe, serait la dernière année d’imposition se terminant avant cette date et qui, sans le présent alinéa, se serait terminée dans les sept jours se terminant immédiatement avant cette date est réputée se terminer immédiatement avant cette date sauf si une personne ou un groupe de personnes acquiert le contrôle de la corporation dans ces sept jours, à condition que la corporation en»

Retrancher la ligne 11, à la page 134, et la remplacer par ce qui suit:

«1987. Toutefois la déclaration de revenu qu’une corporation doit produire en vertu de la présente loi pour une année d’imposition qui est réputée par le paragraphe 249(4) de la même loi, édicté par le paragraphe (1), s’être terminée ou avoir commencé, selon le cas, à un certain moment peut être produite le 90 jour qui suit la date de sanction de la présente loi.»

Article 71

Ajouter, immédiatement après la ligne 2, à la page 136, ce qui suit:

«71.1 (1) L’alinéa 259(1)(b) de la même loi est abrogé et remplacé par ce qui suit:

«b) détenir à cette date la partie—appelée «partie déterminée» au présent paragraphe—de chaque bien de la fiducie représentée par le rapport entre le nombre d’unités de la fiducie que le contribuable détient à cette date et le nombre d’unités de la fiducie en circulation à cette date; le coût indiqué pour la fiducie de la partie déterminée de chaque bien de la fiducie est réputé être le coût indiqué pour le contribuable de cette partie déterminée;»

(2) Le paragraphe (1) s’applique aux périodes tombant après 1985.»

Votre Comité a ordonné la réimpression du projet de loi C-64, tel que modifié, pour l’usage de la Chambre des communes à l’étape du rapport.

Un exemplaire des Procès-verbaux et témoignages relatifs à ce projet de loi (*fascicules nos 78, 79, 126, 127, 129, 130 et 131 qui comprend le présent rapport*) est déposé.

Respectfully submitted,
DON BLENKARN,
Chairman.

Respectueusement soumis,
Le président,
DON BLENKARN.

MINUTES OF PROCEEDINGS

THURSDAY, DECEMBER 3, 1987

(199)

[Text]

The Standing Committee on Finance and Economic Affairs met at 3:40 o'clock p.m. this day, in Room 269, West Block, the Vice-Chairman, Robert Layton, presiding.

Members of the Committee present: Mary Collins, Robert Layton, Paul W. McCrossan, George Minaker, Aileen Nicholson and Norman Warner.

Acting Members present: Clément Côté for Don Blenkarn, Stan Graham for Bill Attewell, Jean-Guy Hudon for Suzanne Blais-Grenier, Lorne McCuish for Murray Dorin and David Orlikow for Simon de Jong.

In attendance: From the Committee's Research Staff: H. Bert Waslander, Research Director. *From the Research Branch of the Library of Parliament:* Terrence J. Thomas, Research Officer.

Witnesses: From the Tax Policy and Legislation Branch of the Department of Finance: Len Farber, Director, Tax Policy and Legislation; Harold White, Legislative Counsel; Brian Ernewein, Tax Policy Officer; Marc Cuerrier, Senior Counsel, Tax Counsel Division.

The Committee resumed consideration of its Order of Reference dated Tuesday, June 30, 1987 in relation to Bill C-64, an Act to amend the Income Tax Act, a related Act, the Canada Pension Plan and the Unemployment Insurance Act, 1971. (*See Minutes of Proceedings and Evidence, Wednesday, August 12, 1987, Issue No. 78.*)

The Committee resumed consideration of Clause 10.

Clause 10 was allowed to stand.

Clauses 11 to 14 carried severally.

On Clause 15

Mary Collins moved,—That Clause 15 be amended by striking out line 9, at page 22, and substituting the following:

“Act or of a prescribed provincial pension plan) shall be included in computing the”

After debate, the question being put on the amendment, it was agreed to.

Mary Collins moved,—That Clause 15, as amended, be further amended by striking out line 26, at page 22, and substituting the following:

“defined in section 3 of that Act or of a prescribed provincial pension plan) that”

After debate, the question being put on the amendment, it was agreed to.

PROCÈS-VERBAL

LE JEUDI 3 DÉCEMBRE 1987

(199)

[Traduction]

Le Comité permanent des finances et des affaires économiques se réunit, aujourd'hui à 15 h 40, dans la pièce 269 de l'Édifice de l'Ouest, sous la présidence de Robert Layton, (*vice-président*).

Membres du Comité présents: Mary Collins, Robert Layton, Paul W. McCrossan, George Minaker, Aileen Nicholson et Norman Warner.

Membres suppléants présents: Clément Côté remplace Don Blenkarn; Stan Graham remplace Bill Attewell; Jean-Guy Hudon remplace Suzanne Blais-Grenier; Lorne McCuish remplace Murray Dorin; David Orlikow remplace Simon de Jong.

Aussi présents: Du personnel de recherche du Comité: H. Bert Waslander, directeur de la recherche. Du Service de recherche de la Bibliothèque du Parlement: Terrence J. Thomas, attaché de recherche.

Témoins: De la Direction de la politique et de la législation de l'impôt du ministère des Finances: Len Farber, directeur, Politique et législation de l'impôt; Harold White, conseiller législatif; Brian Ernewein, agent de la politique de l'impôt; Maître Marc Cuerrier, avocat-conseil, Direction du droit fiscal.

Le Comité examine de nouveau son ordre de renvoi du mardi 30 juin 1987 relatif au projet de loi C-64, Loi modifiant la Loi de l'impôt sur le revenu et la législation connexe ainsi que le Régime de pensions du Canada et la Loi de 1971 sur l'assurance-chômage. (*Voir Procès-verbaux et témoignages du mercredi 12 août 1987, fascicule n° 78.*)

Le Comité examine de nouveau l'article 10.

L'article 10 est réservé.

Les articles 11 à 14 sont respectivement adoptés.

Article 15

Mary Collins propose,—Que l'article 15 soit modifié en substituant à la ligne 9, page 22, ce qui suit:

«de l'article 3 de cette loi ou d'un régime provincial de pensions visé par règlement—doit être inclus»

Après débat, l'amendement est mis aux voix et adopté.

Mary Collins propose,—Que l'article 15 ainsi modifié le soit de nouveau en substituant à la ligne 27, page 22, ce qui suit:

«cette loi ou d'un régime provincial de pensions visé par règlement—qui serait, si ce droit n'avait»

Après débat, l'amendement est mis aux voix et adopté.

Mary Collins moved,—That Clause 15, as amended, be further amended by striking out line 23, at page 23, and substituting the following:

“property of the trust for no consideration or for consideration”

After debate, the question being put on the amendment, it was agreed to.

Mary Collins moved,—That Clause 15, as amended, be further amended by striking out line 27, at page 23, and substituting the following:

“market value differs from the consideration or, if there is no consideration, the amount of the fair market value”

After debate, the question being put on the amendment, it was agreed to.

Clause 15, as amended, carried.

By unanimous consent, the Committee reverted to Clause 10.

The Committee resumed consideration of the amendment by Paul McCrossan as follows:

That Clause 10 be amended by striking out line 23, at page 12, and substituting the following:

“international banking centre business, in respect of the first \$100,000,000 of net income from such international banking centre business. Net income in excess of \$100,000,000 shall be included in computing the income of the taxpayer for the year.”

After debate, the question being put on the amendment, the result of the recorded vote having been announced:

YEAS

Paul McCrossan
George Minaker
Aideen Nicholson

David Orlikow
Norman Warner—(5)

NAYS

Mary Collins
Clément Côté
Stan Graham

Jean-Guy Hudon
Lorne McCuish—(5)

Whereupon the Vice-Chairman voted in the negative.

Accordingly the amendment was negatived.

Aideen Nicholson moved,—That Clause 10 be amended by adding immediately after line 26, at page 16, the following:

“(3) that subsections 1 and 2 expire on December 31, 1990.”

After debate, the question being put on the amendment, it was negatived on the following show of hands: Yeas: 1; Nays: 9.

After debate, Clause 10 carried on division.

Clauses 16 and 17 carried.

On Clause 18

Mary Collins propose,—Que l'article 15 ainsi modifié le soit de nouveau en substituant à la ligne 31, page 23, ce qui suit:

«d'en jouir sans contrepartie ou en contrepartie d'un montant»

Après débat, l'amendement est mis aux voix et adopté.

Mary Collins propose,—Que l'article 15 ainsi modifié le soit de nouveau en substituant aux lignes 16 et 17, page 23, ce qui suit:

«la différence éventuelle entre la juste valeur marchande et la contrepartie ci-après ou, à défaut de contrepartie, la juste valeur marchande»

Après débat, l'amendement est mis aux voix et adopté.

L'article 15, sous sa forme modifiée, est adopté.

Par consentement unanime, le Comité revient à l'article 10.

Le Comité examine de nouveau l'amendement proposé par Paul McCrossan, à savoir:

Que l'article 10 soit modifié en substituant à la ligne 22, page 12, ce qui suit:

«Des revenus excédant le premier cent millions de dollars d'un contribuable provenant d'un tel centre bancaire international doivent être inclus dans le calcul du revenu du contribuable pour l'année.»

Après débat, l'amendement est mis aux voix et le résultat du scrutin est annoncé comme suit:

POUR

Paul McCrossan
George Minaker
Aideen Nicholson

David Orlikow
Norman Warner—(5)

CONTRE

Mary Collins
Clément Côté
Stan Graham

Jean-Guy Hudon
Lorne McCuish—(5)

Sur quoi le vice-président vote par la négative.

L'amendement est donc rejeté.

Aideen Nicholson propose,—Que l'article 10 soit modifié en ajoutant à la suite de la ligne 22, page 16, ce qui suit:

«(3) Les paragraphes 1 et 2 se terminent le 31 décembre 1990.»

Après débat, l'amendement est mis aux voix et rejeté par vote à main levée à la majorité des voix comme suit: Pour: 1; Contre: 9.

Après débat, l'article 10 est adopté avec voix dissidente.

Les articles 16 et 17 sont adoptés.

Article 18

On motion of Mary Collins, it was agreed,—That Clause 18 be amended by striking out line 18, at page 31, and substituting the following:

“(3), (4) or (5) applies, or would apply if the corporation had continued to own the property, to the corpo-”

On motion of Mary Collins, it was agreed,—That Clause 18, as amended, be further amended by striking out line 22, at page 31, and substituting the following:

“66.7(12), (13) or (17), as the case may”

On motion of Mary Collins, it was agreed,—That Clause 18, as amended, be further amended by striking out line 5, at page 32, and substituting the following:

“(1), (2), (3), (4) or (5) applies, or would apply if the corporation had continued to own the property, to”

On motion of Mary Collins, it was agreed,—That Clause 18, as amended, be further amended by striking out line 14, at page 32, and substituting the following:

“applies, or would apply if the other corporation had continued to own the property, to the other corporation in”

On motion of Mary Collins, it was agreed,—That Clause 18, as amended, be further amended, by striking out line 17, at page 32, and substituting the following:

“66.7(14), (15) or (17), as the case may”

On motion of Paul McCrossan, it was agreed,—That Clause 18, as amended, be further amended by adding, immediately after line 26, at page 32, the following:

“(8.1) Paragraph 66(15)(h) of the said Act is amended by striking out the word “and” at the end thereof and by adding thereto after subparagraph (vii) thereof the following:

“or a corporation all or substantially all of the assets of which are shares of the capital stock of one or more other corporations that are related to the corporation (other than by reason of a right referred to in paragraph 251(5)(b) and whose principal business is described in any of subparagraphs (i) to (vii);”

Clause 18, as amended, carried.

Sur motion de Mary Collins, il est convenu,—Que l'article 18 soit modifié en substituant aux lignes 13 à 17, page 31, ce qui suit:

«acquis dans une circonstance où le paragraphe 29(25) des *Règles de 1971 concernant l'application de l'impôt sur le revenu* ou le paragraphe 66.7(1), (2), (3), (4) ou (5) s'applique à la corporation ou se serait appliqué à la corporation si celle-ci avait continué d'être propriétaire de l'avoir»

Sur motion de Mary Collins, il est convenu,—Que l'article 18 ainsi modifié le soit de nouveau en substituant à la ligne 19, page 31, ce qui suit:

«paragraphe 66.7(12), (13) ou (17), dans»

Sur motion de Mary Collins, il est convenu,—Que l'article 18 ainsi modifié le soit de nouveau en substituant aux lignes 1 à 5, page 32, ce qui suit:

«dans une circonstance où le paragraphe 29(25) des *Règles de 1971 concernant l'application de l'impôt sur le revenu* ou le paragraphe 66.7(1), (2), (3), (4) ou (5) s'applique à la corporation ou se serait appliqué à la corporation si celle-ci avait continué d'être propriétaire de l'avoir»

Sur motion de Mary Collins, il est convenu,—Que l'article 18 ainsi modifié le soit de nouveau en substituant aux lignes 9 à 13, page 32, ce qui suit:

«où le paragraphe 29(25) des *Règles de 1971 concernant l'application de l'impôt sur le revenu* ou le paragraphe 66.7(1), (2), (3), (4) ou (5) s'applique à l'autre corporation ou se serait appliqué à l'autre corporation si celle-ci avait continué d'être propriétaire de l'avoir»

Sur motion de Mary Collins, il est convenu,—Que l'article 18 ainsi modifié le soit de nouveau en substituant à la ligne 15, page 32, ce qui suit:

«paragraphe 66.7(14), (15) ou (17), dans»

Sur motion de Paul McCrossan, il est convenu,—Que l'article 18 ainsi modifié le soit de nouveau en ajoutant à la suite de la ligne 25, page 32, ce qui suit:

«(8.1) L'alinéa 66(15)(h) de la même loi est modifié par suppression du mot «et» à la fin du sous-alinéa (vii) et par adjonction de ce qui suit:

«ou une corporation dont la totalité ou presque, de l'actif consiste en actions ou capital-actions d'une ou de plusieurs autres corporations liées à la corporation autrement qu'à cause d'un droit visé à l'alinéa 251(5)(b), et dont l'entreprise principale est visée à l'un des sous-alinéas (i) à (vii)»

L'article 18 ainsi modifié est adopté.

By unanimous consent, the Committee reverted to Clause 17.

By unanimous consent, it was agreed that Clause 17 be amended by adding, immediately after line 45, at page 26, the following:

“17. (1) All that portion of paragraph 60(j.1) of the said Act preceding subparagraph (iii) thereof is repealed and the following substituted therefor:

Transfer of retiring allowances

“(j.1) such part of the aggregate of all amounts each of which is an amount paid to the taxpayer by an employer, or under a retirement compensation arrangement to which the employer has contributed, as a retiring allowance and included in computing his income for the year by virtue of subparagraph 56(1)(a)(ii) or paragraph 56(1)(x) as

(i) is designated by the taxpayer in his return of income under this Part for the year,

(ii) does not exceed the amount, if any, by which the aggregate of

(A) \$2,000 times the number of years during which the employee or former employee in respect of whom the payment was made (in this paragraph referred to as the “retiree”) was employed by the employer or a person related to the employer, and

(B) \$1,500 times the number by which the number of years described in clause (A) exceeds the number that can reasonably be regarded as the equivalent number of years in respect of which employer contributions under either a pension fund or plan or a deferred profit sharing plan of the employer or a person related to the employer had vested in the retiree at the time of the payment exceeds the aggregate of

(C) all amounts deducted under this paragraph in respect of amounts paid before the year in respect of the retiree by the employer or a person related to the employer, or under a retirement compensation arrangement to which the employer or the person has contributed, and

(D) all amounts deducted under paragraph (t) in computing the retiree's income for the year, and”

By unanimous consent, it was agreed,—That Clause 17, as amended, be further amended by striking out line 1, at page 27, and substituting the following:

Par consentement unanime, le Comité revient à l'article 17.

Par consentement unanime, il est convenu que l'article 17 soit modifié en ajoutant à la suite de la ligne 46, page 26, ce qui suit:

«17.(1) Le passage de l'alinéa 60j.1) de la même loi qui précède le sous-alinéa (iii) est abrogé et remplacé par ce qui suit:

Transfert d'allocation de retraite

«j.1) La partie du total des montants dont chacun représente un montant versé au contribuable à titre d'allocation de retraite par un employeur ou dans le cadre d'une convention de retraite à laquelle l'employé a cotisé et inclus dans le calcul du revenu du contribuable pour l'année, en vertu du sous-alinéa 56(1)a) (ii) ou de l'alinéa 56(1)x), qui:

(i) est indiquée par le contribuable dans sa déclaration de revenu pour l'année en vertu de la présente partie,

(ii) ne dépasse pas l'excédent éventuel du total

(A) du produit de 2,000\$ par le nombre d'années pendant lesquelles l'employé ou ancien employé à l'égard duquel le versement a été fait—appelé «retraité» au présent alinéa—était au service de l'employeur ou d'une personne liée à celui-ci.

(B) du produit de 1,500\$ par l'excédent du nombre d'années visé à la division (A) sur le nombre qu'il est raisonnable de considérer comme le nombre équivalent d'années pour lesquelles les cotisations de l'employeur en vertu de quelque caisse ou régime de pensions ou d'un régime de participation différée aux bénéfices de l'employeur ou d'une personne liée à celui-ci étaient acquises au retraité au moment du versement,

sur le total

(C) des montants déduits en vertu du présent alinéa au titre des sommes versées avant l'année pour le retraité par l'employeur ou une personne liée à celui-ci ou dans le cadre d'une convention de retraite à laquelle l'employeur ou la personne a cotisé,

(D) des montants déduits selon l'alinéa t) dans le calcul du revenu du retraité pour l'année, etc»

Par consentement unanime, il est convenu,—Que l'article 17 ainsi modifié le soit de nouveau en substituant à la ligne 1, page 27, ce qui suit:

“(2) Section 60 of the said Act is further”

By unanimous consent, it was agreed,—That Clause 17, as amended, be further amended by striking out lines 44 and 45, at page 28, and substituting the following:

“(3) Subsection (1), and paragraphs 60(t) and (u) of the said Act as enacted by subsection (2), are appli—”

By unanimous consent, it was agreed,—That Clause 17, as amended, be further amended by striking out lines 47 and 48, at page 28, and substituting the following:

“(4) Paragraph 60(v) of the said Act, as enacted by subsection (2), is applicable to”

Clause 17, as amended, carried.

Clauses 19 to 21 carried severally.

On Clause 22

By unanimous consent, it was agreed,—That Clause 22 be amended by adding, immediately after line 43, at page 37, the following:

“22.1 (1) Section 66.6 of the said Act is repealed and the following substituted therefor:

Application of subsections 66.7(1), (2), etc.

“66.6(1) Where a particular corporation has at any time after July 19, 1985 acquired by purchase, amalgamation, merger, winding-up or otherwise, from another person who is exempt from tax under this Part on his taxable income (other than a corporation that is referred to in paragraph 149(1)(d) and that is a principal-business corporation within the meaning assigned by paragraph 66(15)(h) all or substantially all of the person's Canadian resource properties, subsection 29(25) of the *Income Tax Application Rules, 1971* and subsections 66.7(1), (2), (3) and (4) do not apply to the particular corporation in respect of the acquisition of the properties except to the extent that the properties were acquired by it before 1987 pursuant to an agreement in writing made by it before July 20, 1985.

Application of subsection 66.7(5)

(2) Where a particular corporation has at any time after July 19, 1985 acquired by purchase, amalgamation, merger, winding-up or otherwise, from another person who is exempt from tax under this Part on his taxable income all or substantially all of the person's Canadian resource properties, subsection 66.7(5) does not apply to the particular corporation in respect of the acquisition of the properties except to the extent that the properties were acquired by it before 1987 pursuant to an agreement in writing made by it before July 20, 1985.”

«(2) L'article 60 de la même loi est»

Par consentement unanime, il est convenu,—Que l'article 17 ainsi modifié le soit de nouveau en substituant aux lignes 33 et 34, page 28 ce qui suit:

«(3) Le paragraphe (1) et les alinéas 60(t) et u) de la même loi, édictés par le paragraphe (2), s'appliquent»

Par consentement unanime, il est convenu,—Que l'article 17 ainsi modifié le soit de nouveau en substituant aux lignes 36 et 37, page 28, ce qui suit:

«(4) L'alinéa 60(v) de la même loi, édicté par le paragraphe (2), s'applique aux années»

L'article 17, sous sa forme modifiée, est mis aux voix et adopté.

Les articles 19 à 21 sont respectivement adoptés.

Article 22

Par consentement unanime, il est convenu,—Que l'article 22 soit modifié en ajoutant à la suite de la ligne 42, page 37, ce qui suit:

«22.1(1) L'article 66.6 de la même loi est abrogé et remplacé par ce qui suit:

Exceptions aux règles concernant les corporations remplaçantes

«66.6(1) Le paragraphe 29(25) des *Règles de 1971 concernant l'application de l'impôt sur le revenu* et les paragraphes 66.7(1), (2), (3) et (4) ne s'appliquent pas à la corporation qui acquiert, à une date postérieure au 19 juillet 1985, par achat, fusion, unification, liquidation ou autrement, la totalité ou presque des avoirs miniers canadiens d'une autre personne qui est exonérée de l'impôt prévu par la présente partie sur son revenu imposable mais qui n'est pas une corporation visée à l'alinéa 149(1)(d) exploitant une entreprise principale au sens de l'alinéa 66(15)(h); ces paragraphes s'appliquent toutefois si la corporation acquiert les avoirs avant 1987 conformément à une convention écrite conclue par celle-ci avant le 20 juillet 1985.

Exception aux règles concernant les corporations remplaçantes y compris celles de l'État

(2) Le paragraphe 66.7(5) ne s'applique pas à la corporation qui acquiert, à une date postérieure au 19 juillet 1985, par achat, fusion, unification, liquidation ou autrement, la totalité ou presque des avoirs miniers canadiens d'une autre personne qui est exonérée de l'impôt prévu par la présente partie sur son revenu imposable; ce paragraphe s'applique toutefois si la corporation acquiert les avoirs avant 1987 conformément à une convention écrite conclue par celle-ci avant le 20 juillet 1985.»

(2) Subsection (1) is applicable to taxation years ending after February 17, 1987."

Clause 22, as amended, carried.

On Clause 23

On motion of Jean-Guy Hudon, it was agreed,—That Clause 23 be amended by striking out lines 38 and 39, at page 43, and substituting the following:

"(ii) the aggregate of all other amounts deducted under subsection"

On motion of Jean-Guy Hudon, it was agreed,—That Clause 23, as amended, be further amended by striking out lines 7 and 8, at page 45, and substituting the following:

"(ii) the aggregate of other amounts deducted under subsection"

On motion of Jean-Guy Hudon, it was agreed,—That Clause 23, as amended, be further amended by striking out lines 19 to 37, at page 45, and substituting the following:

"tions (1) to (5) do not apply

(a) in respect of a Canadian resource property or a foreign resource property acquired by way of an amalgamation to which subsection 87(1.2) applies or a winding-up to which subsection 88(1.5) applies; or

(b) to permit, in respect of the acquisition by a corporation before February 18, 1987 of a Canadian resource property or a foreign resource property, a deduction by the corporation of an amount that the corporation would not have been entitled to deduct under section 29 of the *Income Tax Application Rules, 1971* or section 66, 66.1, 66.2 or 66.4 if those sections, as they read in their application to taxation years ending before February 18, 1987, applied to taxation years ending after February 17, 1987."

On motion of Jean-Guy Hudon, it was agreed,—That Clause 23, as amended, be further amended by striking out line 3, at page 46, and substituting the following:

"property used by"

On motion of Jean-Guy Hudon, it was agreed,—That Clause 23, as amended, be further amended by striking out line 7, at page 46, and substituting the following:

"in subparagraphs 66(15)(h)(i) to (vii) as"

On motion of Jean-Guy Hudon, it was agreed,—That Clause 23, as amended, be further amended by striking out line 13, at page 47, and substituting the following:

"property used by the"

On motion of Jean-Guy Hudon, it was agreed,—That Clause 23, as amended, be further amended by striking out line 17, at page 47, and substituting the following:

"in subparagraphs 66(15)(h)(i) to (vii) as"

(2) Le paragraphe (1) s'applique aux années d'imposition se terminant après le 17 février 1987.»

L'article 22 ainsi modifié est adopté.

Article 23

Sur motion de Jean-Guy Hudon, il est convenu,—Que l'article 23 soit modifié en substituant aux lignes 40 et 41, page 43, ce qui suit:

«(ii) le total des autres montants déduits—en vertu du paragraphe»

Sur motion de Jean-Guy Hudon, il est convenu,—Que l'article 23 ainsi modifié le soit de nouveau en substituant aux lignes 12 et 13, page 45, ce qui suit:

«(ii) le total des autres montants déduits—en vertu du paragraphe»

Sur motion de Jean-Guy Hudon, il est convenu,—Que l'article 23 ainsi modifié le soit de nouveau en substituant aux lignes 26 à 42, page 45, ce qui suit:

«a) soit acquis par suite d'une fusion à laquelle le paragraphe 87(1.2) s'applique ou d'une liquidation à laquelle le paragraphe 88(1.5) s'applique;

b) soit acquis avant le 18 février 1987 par une corporation afin de lui permettre de déduire un montant qu'elle n'aurait pas eu le droit de déduire en vertu de l'article 29 des *Règles de 1971 concernant l'application de l'impôt sur le revenu* ou des articles 66, 66.1, 66.2 ou 66.4 si ces articles, dans leur version applicable aux années d'imposition se terminant avant le 18 février 1987, s'étaient appliqués aux années d'imposition se terminant après le 17 février 1987.»

Sur motion de Jean-Guy Hudon, il est convenu,—Que l'article 23 ainsi modifié le soit de nouveau en substituant à la ligne 2, page 46, ce qui suit:

«presque, des biens»

Sur motion de Jean-Guy Hudon, il est convenu,—Que l'article 23 ainsi modifié le soit de nouveau en substituant à la ligne 7, page 46, ce qui suit:

«néas 66(15)h) (i) à (vii);»

Sur motion de Jean-Guy Hudon, il est convenu,—Que l'article 23 ainsi modifié le soit de nouveau en substituant à la ligne 7, page 47, ce qui suit:

«presque, des biens»

Sur motion de Jean-Guy Hudon, il est convenu,—Que l'article 23 ainsi modifié le soit de nouveau en substituant à la ligne 12, page 47, ce qui suit:

«néas 66(15)h) (i) à (vii);»

On motion of Jean-Guy Hudon, it was agreed,—That Clause 23, as amended, be further amended by striking out line 26, at page 49, and substituting the following:

“this Act, other than subsections 66(12.6), (12.62), (12.64) and (12.71),”

On motion of Jean-Guy Hudon, it was agreed,—That Clause 23, as amended, be further amended by striking out line 15, at page 55, and substituting the following:

Reduction of Canadian resource expenses

“(12) Where in a taxation year and after June 5, 1987 an rigi-”

On motion of Jean-Guy Hudon, it was agreed,—That Clause 23, as amended, be further amended by striking out line 29, at page 55, and substituting the following:

“him except for the purposes of making a deduction under subsection 66(1) or (2) for the year and of determin-”

On motion of Jean-Guy Hudon, it was agreed,—That Clause 23, as amended, be further amended by striking out lines 40 and 41, at page 55, and substituting the following:

“amount, if any, by which the amount thereof determined immediately after the disposition exceeds the amount claimed by him under subsection 66.1(2) or (3) for the year;”

On motion of Jean-Guy Hudon, it was agreed,—That Clause 23, as amended, be further amended by striking out line 19, at page 56, and substituting the following:

“the purposes of making a deduction under that section for the year and of determining the amount”

On motion of Jean-Guy Hudon, it was agreed,—That Clause 23, as amended, be further amended by striking out line 40, at page 56, and substituting the following:

“(14) Where, in a taxation year and after June 5, 1987 a prede-”

On motion of Jean-Guy Hudon, it was agreed,—That Clause 23, as amended, be further amended by striking out line 7, at page 57, and substituting the following:

“properties except for the purposes of making a deduction under subsection (1) or (3) for the year.”

On motion of Jean-Guy Hudon, it was agreed,—That Clause 23, as amended, be further amended by adding, immediately after line 35, at page 57, the following:

Restriction on deductions

“(17) Where in a particular taxation year and before June 6, 1987 a person disposed of a Canadian resource property or a foreign resource property in circumstances in which any of subsection 29(25) of the *Income Tax Application Rules, 1971* and

Sur motion de Jean-Guy Hudon, il est convenu,—Que l'article 23 ainsi modifié le soit de nouveau en substituant à la ligne 18, page 49, ce qui suit:

«présente loi—sauf les paragraphes 66(12.6), (12.62), (12.64) et»

Sur motion de Jean-Guy Hudon, il est convenu,—Que l'article 23 ainsi modifié le soit de nouveau en substituant à la ligne 15, page 55, ce qui suit:

Réduction des frais relatifs à des ressources au Canada

«(12) Dans le cas où, au cours d'une année d'imposition et après le 5 juin»

Sur motion de Jean-Guy Hudon, il est convenu,—Que l'article 23 ainsi modifié le soit de nouveau en substituant à la ligne 30, page 55, ce qui suit:

«celui-ci, sauf pour effectuer la déduction prévue au paragraphe 66(1) ou (2) pour l'année et calculer le mon-»

Sur motion de Jean-Guy Hudon, il est convenu,—Que l'article 23 ainsi modifié le soit de nouveau en substituant aux lignes 39 à 42, page 55, ce qui suit:

«visée au sous-alinéa (3)a) (i), l'excédant éventuel des frais cumulatifs d'exploration au Canada calculés immédiatement après la disposition sur le montant qu'il a déduit pour l'année en application du paragraphe 66.1(2) ou (3) doit être déduit;»

Sur motion de Jean-Guy Hudon, il est convenu,—Que l'article 23 ainsi modifié le soit de nouveau en substituant à la ligne 25, page 56, ce qui suit:

«obligé, sauf pour effectuer la déduction prévue à cet article pour l'année et calculer le mon-»

Sur motion de Jean-Guy Hudon, il est convenu,—Que l'article 23 ainsi modifié le soit de nouveau en substituant à la ligne 46, page 56, ce qui suit:

«miniers canadiens qui dispose au cours d'une année d'imposition et après le»

Sur motion de Jean-Guy Hudon, il est convenu,—Que l'article 23 ainsi modifié le soit de nouveau en substituant à la ligne 7, page 57, ce qui suit:

«de ces avoirs, sauf pour effectuer une déduction pour l'année en application du paragraphe (1) ou (3).»

Sur motion de Jean-Guy Hudon, il est convenu,—Que l'article 23 ainsi modifié le soit de nouveau en ajoutant à la suite de la ligne 32, page 57, ce qui suit:

Restriction aux déductions

«(17) Dans le cas où, au cours d'une année d'imposition donnée et avant le 4 juin 1987, une personne dispose d'un avoir minier canadien ou d'un avoir minier étranger dans une circonstance où le paragraphe 29(25) des *Règles de 1971 concernant*

subsections (1) to (5) applies, no deduction in respect of an expense incurred before the property was disposed of may be made under this section or section 66, 66.1, 66.2 or 66.4 by the person in computing his income for a taxation year subsequent to the particular taxation year."

Clause 23, as amended, carried.

On Clause 24

On motion of Jean-Guy Hudon, it was agreed,—That Clause 24 be amended by striking out line 30, at page 58, and substituting the following:

"Act, the vendor shall, where the subsequent disposition occurs within three years after that time, be deemed to have"

On motion of Jean-Guy Hudon, it was agreed,—That Clause 24, as amended, be further amended by striking out line 40, at page 58, and substituting the following:

"transactions commenced;"

On motion of Jean-Guy Hudon, it was agreed,—That Clause 24, as amended, be further amended by striking out line 2, at page 59, and substituting the following:

"(c) where the vendor is a partnership, a person who was neither

(i) a majority interest partner (within the meaning assigned by subsection 97(3.1)) of the partnership immediately before the series commenced, nor

(ii) a person who was (otherwise than by virtue of a right referred to in paragraph 251(5)(b)) related to a person described in subparagraph (i) immediately before the series commenced."

After debate, Clause 24, as amended, carried on division.

On Clause 25

On motion of Jean-Guy Hudon, it was agreed,—That Clause 25 be amended by striking out line 6, at page 60, and substituting the following:

"Act or of a prescribed provincial pension plan), either directly or indirectly, by"

Clause 25, as amended, carried.

On Clause 26

By unanimous consent, it was agreed,—That Clause 26 be amended by adding, immediately after line 20, at page 61, the following:

"26.1 (1) Subsection 74.5(12) of the said Act is amended by striking out the word "or" at the end of paragraph (a) thereof and by adding thereto, immediately after paragraph (a) thereof, the following paragraph:

"(a.1) as an amount contributed under a provincial pension plan prescribed for the

l'application de l'impôt sur le revenu ou l'un des paragraphes (1) à (5) s'applique, aucune déduction au titre des frais engagés avant la disposition ne peut être faite par cette personne en application du présent article ou de l'article 66, 66.1, 66.2 ou 66.4 dans le calcul de son revenu pour une année d'imposition postérieure à l'année donnée."

L'article 23, sous sa forme modifiée, est adopté.

Article 24

Sur motion de Jean-Guy Hudon, il est convenu,—Que l'article 24 soit modifié en substituant à la ligne 24, page 58, ce qui suit:

«disposition ultérieure, qui a lieu dans les trois ans suivant cette date, du bien ou d'un bien»

Sur motion de Jean-Guy Hudon, il est convenu,—Que l'article 24 ainsi modifié le soit de nouveau en ajoutant à la suite de la ligne 47, page 58, ce qui suit:

«c) soit, si le vendeur est une société, une personne qui n'était:

(i) ni un associé détenant une participation majoritaire—au sens du paragraphe 97(3.1)—de la société immédiatement avant le début de la série,

(ii) ni une personne qui était liée à un associé visé au sous-alinéa (i) immédiatement avant le début de la série—sauf à cause d'un droit visé à l'alinéa 251(5)b)—»

Après débat, l'article 24 ainsi modifié est adopté avec voix dissidente.

Article 25

Sur motion de Jean-Guy Hudon, il est convenu,—Que l'article 25 soit modifié en substituant à la ligne 6, page 60, ce qui suit:

«cette loi ou d'un régime provincial de pensions visé par règlement—directement ou indirectement,»

L'article 25 ainsi modifié est adopté.

Article 26

Par consentement unanime, il est convenu,—Que l'article 26 soit modifié en ajoutant à la suite de la ligne 22, page 61, ce qui suit:

«26.1 (1) Le paragraphe 74.5(12) de la même loi est modifié par insertion, après l'alinéa a), de ce qui suit:

«a.1) soit en paiement d'une cotisation dans le cadre d'un régime provincial de pensions visé par

purposes of paragraph 60(v) under which the individual's spouse is, immediately after the transfer, the annuitant (within the meaning assigned by subsection 146(1)) or the owner of the account under the plan to the extent that the amount does not exceed the amount by which the amount prescribed for the purposes of subparagraph 60(v)(ii) for the year in respect of the plan exceeds the aggregate of all other contributions to the plan for the year to the account of the spouse under the plan; or"

(2) Subsection (1) is applicable to the 1987 and subsequent taxation years."

Clause 26, as amended, carried.

Clauses 27 and 28 carried.

On Clause 29

On motion of Mary Collins, it was agreed,—That Clause 29 be amended by striking out line 17, at page 66, and substituting the following:

"years ending after February 17, 1987 with respect to amalgamations occurring after 1982, and with respect to amalgamations occurring after December 14, 1975 and before 1983 where an election has been made under subsection 87(1.2) as that subsection read at that time."

Clause 29, as amended, carried.

On Clause 30

On motion of Jean-Guy Hudon, it was agreed,—That Clause 30 be amended by striking out line 10, at page 73, and substituting the following:

"tion years ending after February 17, 1987 with respect to windings-up commencing after 1982."

Clause 30, as amended, carried.

Clauses 31 to 37 carried severally.

Clause 38 carried on division.

Clause 39 carried.

On Clause 40

On motion of Jean-Guy Hudon, it was agreed,—That Clause 40 be amended by striking out line 10, at page 80, and substituting the following:

"the property;"

On motion of Jean-Guy Hudon, it was agreed,—That Clause 40, as amended, be further amended by striking out line 19, at page 80, and substituting the following:

"income under this Part for the taxation year that ended immediately before that time or in"

On motion of Jean-Guy Hudon, it was agreed,—That Clause 40, as amended, be further amended by striking out line 41, at page 80, and substituting the following:

"to the proceeds of disposition thereof; and

règlement pour l'application de l'alinéa 60v), dont le conjoint du particulier est, immédiatement après le transfert, le rentier—au sens du paragraphe 146(1)—ou le propriétaire d'un compte dans le régime, dans la mesure où cette cotisation ne dépasse pas l'excédent du montant visé par règlement pour l'application du sous-alinéa 60v) (ii) pour l'année en ce qui concerne le régime sur le total des autres cotisations versées pour l'année au compte du conjoint dans le régime;"

(2) Le paragraphe (1) s'applique aux années d'imposition 1987 et suivantes."

L'article 26 ainsi modifié est adopté.

Les articles 27 et 28 sont adoptés.

Article 29

Sur motion de Mary Collins, il est convenu,—Que l'article 29 soit modifié en substituant à la ligne 19, page 66, ce qui suit:

"février 1987 pour ce qui est des fusions qui ont lieu après 1982 et de celles qui ont eu lieu après le 14 décembre 1975 et avant 1983 dans le cas où le choix prévu au paragraphe 87(1.2), dans sa version alors applicable, a été fait."

L'article 29 ainsi modifié est adopté.

Article 30

Sur motion de Jean-Guy Hudon, il est convenu,—Que l'article 30 soit modifié en substituant à la ligne 10, page 73, ce qui suit:

"février 1987 pour ce qui est des liquidations commençant après 1982."

L'article 30 ainsi modifié est adopté.

Les articles 31 à 37 sont respectivement adoptés.

L'article 38 est adopté avec voix dissidente.

L'article 39 est adopté.

Article 40

Sur motion de Jean-Guy Hudon, il est convenu,—Que l'article 40 soit modifié en substituant à la ligne 11, page 80, ce qui suit:

"avant cette date;"

Sur motion de Jean-Guy Hudon, il est convenu,—Que l'article 40 ainsi modifié le soit de nouveau en substituant à la ligne 23, page 80, ce qui suit:

"pour l'année d'imposition se terminant immédiatement avant cette date ou sur le formulaire régle—"

Sur motion de Jean-Guy Hudon, il est convenu,—Que l'article 40 ainsi modifié le soit de nouveau en substituant à la ligne 42, page 80, ce qui suit:

"déclaration ou sur le formulaire; et

(f) each amount that by virtue of paragraph (d) or (e) is a capital loss or gain of the corporation from a disposition of a property for the taxation year that ended immediately before that time shall, for the purposes of paragraph 89(1)(b), be deemed to be a capital loss or gain, as the case may be, of the corporation from the disposition of the property immediately before the time that a capital property of the corporation in respect of which paragraph (e) would be applicable would be deemed by that paragraph to have been disposed of by the corporation."

Clause 40, as amended, carried.

On Clause 41

On motion of Jean-Guy Hudon, it was agreed,—That Clause 41 be amended, in the French version only, by striking out line 2, at page 86, and substituting the following:

"251(5)b)—."

Clause 41, as amended, carried.

On Clause 42

On motion of Jean-Guy Hudon, it was agreed,—That Clause 42 be amended by striking out line 37, at page 88, and substituting the following:

"of a prescribed class to the vendor and the vendor's capital"

Clause 42, as amended, carried.

Clauses 43 and 44 carried.

On Clause 45

On motion of Mary Collins, it was agreed,—That Clause 45 be amended, in the French version only, by striking out line 35, at page 91, and substituting the following:

"d.1), d.2), d.3), f) ou j) ou"

Clause 45, as amended, carried.

Clauses 46 to 48 carried severally.

On Clause 49

On motion of Mary Collins, it was agreed,—That Clause 49 be amended by striking out line 21, at page 98, and substituting the following:

"deposit insurance corporation,"

On motion of Mary Collins, it was agreed,—That Clause 49, as amended, be further amended by adding, immediately after line 24, at page 98, the following:

"(E) to acquire shares of the capital stock of a member institution in financial difficulty, or"

On motion of Mary Collins, it was agreed,—That Clause 49, as amended, be further amended by adding, immediately after line 29, at page 98, the following:

f) pour l'application de l'alinéa 89(1)b), chaque montant qui constitue, selon l'alinéa d) ou e), une perte en capital ou un gain en capital de la corporation, résultant de la disposition d'un bien, pour l'année d'imposition se terminant immédiatement avant cette date est réputé être une perte en capital ou un gain en capital, selon le cas, de la corporation résultant de la disposition du bien avant le moment où la corporation serait réputée, selon l'alinéa e) avoir disposé d'un bien en immobilisation auquel cet alinéa serait applicable.»

L'article 40 ainsi modifié est adopté.

Article 41

Sur motion de Jean-Guy Hudon, il est convenu,—Que l'article 41 soit modifié, dans la version française seulement, en substituant à la ligne 2, page 86, ce qui suit:

«251(5)b)—,»

L'article 41 ainsi modifié est adopté.

Article 42

Sur motion de Jean-Guy Hudon, il est convenu,—Que l'article 42 soit modifié en substituant à la ligne 34, page 88, ce qui suit:

«amortissable d'une catégorie prescrite pour le vendeur à la date»

L'article 42 ainsi modifié est adopté.

Les articles 43 et 44 sont adoptés.

Article 45

Sur motion de Mary Collins, il est convenu,—Que l'article 45 soit modifié, dans la version française seulement, en substituant à la ligne 35, page 91, ce qui suit:

«d.1), d.2), d.3), f) ou j) ou»

L'article 45 ainsi modifié est adopté.

Les articles 46 à 48 sont respectivement adoptés.

Article 49

Sur motion de Mary Collins, il est convenu,—Que l'article 49 soit modifié en substituant à la ligne 21 de la version anglaise seulement page 98, ce qui suit:

«deposit insurance corporation»

Sur motion de Mary Collins, il est convenu,—Que l'article 49 ainsi modifié le soit de nouveau en ajoutant à la suite de la ligne 25, page 98, ce qui suit:

«(E) soit à acquérir des actions du capital-actions d'une institution membre en difficulté financière,»

Sur motion de Mary Collins, il est convenu,—Que l'article 49 ainsi modifié le soit de nouveau en ajoutant à la suite de la ligne 31, page 98, ce qui suit:

“(2.1) Subclause 137.1(5)(a)(i)(B)(II) of the said Act is repealed and the following substituted therefor:

“(II) the cost amount to the corporation of its investment property was at least 50% of the cost amount to it of all its property (other than a debt obligation of, or a share of the capital stock of, a member institution issued by the member institution at a time when it was in financial difficulty, or”

On motion of Mary Collins, it was agreed,—That Clause 49, as amended, be further amended by striking out line 12, at page 101, and substituting the following:

“(8) Subsections (2.1), (3) and (4) are applicable”

Clause 49, as amended, carried.

On Clause 50

On motion of Jean-Guy Hudon, it was agreed,—That Clause 50 be amended by striking out line 21, at page 103, and substituting the following:

“June 5, 1987, other than where a corporation becomes exempt from tax under Part I of the said Act on its taxable income after that day as a result of the acquisition of shares of the capital stock of the corporation or of another corporation pursuant to

(i) an agreement entered into on or before that day, or

(ii) a take-over bid made in accordance with the applicable securities legislation in Canada and a take-over bid circular or similar document to give notice to the public of the take-over bid was filed with a public authority or stock exchange in Canada on or before that day.”

Clause 50, as amended, carried.

Clauses 51 to 53 carried severally.

On Clause 54

On motion of Mary Collins, it was agreed,—That Clause 54 be amended by striking out lines 27 to 29, at page 106, and substituting the following:

Interest on instalments

“(2.2) Notwithstanding subsections (1) and (2), the total amount of interest payable by a taxpayer (other than a testamentary trust) under those subsections for the”

On motion of Mary Collins, it was agreed,—That Clause 54, as amended, be further amended by striking out line 1, at page 107, and substituting the following:

“taxpayer under subsections (1) and (2) in respect”

Clause 54, as amended, carried.

“(2.1) La division 137.1(5)a) (i) (B) (II) de la même loi est abrogée et remplacée par ce qui suit:

«(II) le coût indiqué, pour la corporation, de ses biens de placement constituait au moins 50% du coût indiqué, pour elle, de tous ses biens—à l'exclusion des titres de créances et des actions du capital-actions d'une institution membre émis par celle-ci alors qu'elle était en difficulté financière—, ou»

Sur motion de Mary Collins, il est convenu,—Que l'article 49 ainsi modifié le soit de nouveau en substituant à la ligne 6, page 101, ce qui suit:

«(8) Les paragraphes (2.1) et (4) s'appliquent»

L'article 49, sous sa forme modifiée, est adopté.

Article 50

Sur motion de Jean-Guy Hudon, il est convenu,—Que l'article 50 soit modifié en substituant à la ligne 26, page 103, ce qui suit:

«imposable, sauf si elle le devient par suite de l'acquisition d'actions de son propre capital-actions ou de celui d'une autre corporation en vertu:

(i) doit d'une convention conclue avant le 6 juin 1987,

(ii) soit d'une offre publique d'achat qui a été faite conformément à la législation sur les valeurs mobilières applicables au Canada et qui a été annoncée publiquement par une note d'information ou un document analogue produit avant le 6 juin 1987 auprès d'un organisme public ou d'une bourse de valeurs au Canada.»

L'article 50 ainsi modifié est adopté.

Les articles 51 à 53 sont respectivement adoptés.

Article 54

Sur motion de Mary Collins, il est convenu,—Que l'article 54 soit modifié en substituant aux lignes 22 à 28, page 106, ce qui suit:

Exception

«(2.2) Par dérogation aux paragraphes (1) et (2), le total des intérêts, sur l'impôt ou les acomptes provisionnels payables pour une année d'imposition, qu'un contribuable—à l'exception d'une fiducie testamentaire—doit verser en application de ces paragraphes pour la période allant du premier jour de cette année où une fraction d'impôt ou un acompte provisionnel est payable»

Sur motion de Mary Collins, il est convenu,—Que l'article 54 ainsi modifié le soit de nouveau en substituant à la ligne 42, page 106, ce qui suit:

«période en application des paragraphes (1) et»

L'article 54 ainsi modifié est adopté.

Clauses 55 and 56 carried.

On Clause 57

On motion of Jean-Guy Hudon, it was agreed,—That Clause 57 be amended by striking out line 12, at page 108, and substituting the following:

“been acquired by the corporation or any other person or a partner.”

On motion of Jean-Guy Hudon, it was agreed,—That Clause 57, as amended, be further amended by striking out line 21, at page 108, and substituting the following:

“(c) one of the main purposes of the transac-”

On motion of Jean-Guy Hudon, it was agreed,—That Clause 57, as amended, be further amended by striking out lines 43 and 44, at page 108, and substituting the following:

“for a share of the capital stock of a corporation, the person or”

On motion of Jean-Guy Hudon, it was agreed,—That Clause 57, as amended, be further amended by striking out lines 6 to 10, at page 109, and substituting the following:

“(b) a distribution of corporate surplus by an acquiring corporation shall be deemed to have occurred where the consideration for the acquisition of a share is provided or is to be provided, directly or indirectly in any manner whatever, by the acquiring corporation and that consideration exceeded the paid-up capital of the share immediately before the acquisition.”

On motion of Jean-Guy Hudon, it was agreed,—That Clause 57, as amended, be further amended by striking out line 15, at page 109, and substituting the following:

“tions or events to the extent that the subsection has”

On motion of Jean-Guy Hudon, it was agreed,—That Clause 57, as amended, be further amended by striking out line 19, at page 109, and substituting the following:

Restrictions

“(4) For greater certainty, subsection (1) does not apply with”

On motion of Jean-Guy Hudon, it was agreed,—That Clause 57, as amended, be further amended by striking out lines 30 to 33, at page 109, and substituting the following:

“or more persons or partnerships (which persons or partnerships are referred to in this paragraph as the “purchaser”) unless the purchaser was not dealing at arm’s length with the person or partnership that controlled or

Les articles 55 et 56 sont adoptés.

Article 57

Sur motion de Jean-Guy Hudon, il est convenu,—Que l’article 57 soit modifié en substituant à la ligne 6, page 108, ce qui suit:

«131(8)—dont elle-même, une autre personne ou une société»

Sur motion de Jean-Guy Hudon, il est convenu,—Que l’article 57 ainsi modifié le soit de nouveau en substituant aux lignes 23 et 24, page 108, ce qui suit:

«l’un des principaux objets de l’opération ou de la série d’opérations ou d’événements est»

Sur motion de Jean-Guy Hudon, il est convenu,—Que l’article 57 ainsi modifié le soit de nouveau en substituant à la ligne 35, page 108, ce qui suit:

«capital-actions d’une corporation»

Sur motion de Jean-Guy Hudon, il est convenu,—Que l’article 57 ainsi modifié le soit de nouveau en substituant aux lignes 4 à 8, page 109, ce qui suit:

«b) un surplus est réputé libéré par la corporation visée au paragraphe (1) quand la contrepartie de l’acquisition d’une action, d’une part, est fournie, ou doit l’être, par cette corporation directement ou indirectement de quelque façon que ce soit et, d’autre part, dépasse le capital versé au titre de cette action immédiatement avant l’acquisition.»

Sur motion de Jean-Guy Hudon, il est convenu,—Que l’article 57 ainsi modifié le soit de nouveau en substituant à la ligne 13, page 109, ce qui suit:

«ments dans la mesure où il s’applique déjà à une acquisition»

Sur motion de Jean-Guy Hudon, il est convenu,—Que l’article 57 ainsi modifié le soit de nouveau en substituant à la ligne 16, page 109, ce qui suit:

Restrictions

«(4) Il est entendu que le paragraphe (1) ne s’applique pas»

Sur motion de Jean-Guy Hudon, il est convenu,—Que l’article 57 ainsi modifié le soit de nouveau en substituant aux lignes 25 à 31, page 109, ce qui suit:

«sociétés sauf si ces personnes ou sociétés avaient un lien de dépendance avec la personne ou société qui, immédiatement avant le début de la série, contrôlait la corporation visée ou la corporation remplacée ou avec toutes les personnes ou sociétés qui faisaient partie d’un groupe qui, immédiatement avant le début de la série, contrôlaient l’une ou l’autre corporation;»

On motion of Jean-Guy Hudon, it was agreed,—That Clause 57, as amended, be further amended by striking out line 17, at page 111, and substituting the following:

“of an acquiring corporation to the extent that subsec-”

Clause 57, as amended, carried.

Clauses 58 to 61, carried severally.

On Clause 62

On motion of Jean-Guy Hudon, it was agreed,—That Clause 62 be amended, in the French version only, be striking out line 2, at page 116, and substituting the following:

“que les montants ainsi payés font”

On motion of Jean-Guy Hudon, it was agreed,—That Clause 62, as amended, be further amended by striking out line 30, at page 117, and substituting the following:

“(c) an amount equal to twice the amount of any premium paid in respect of the”

On motion of Jean-Guy Hudon, it was agreed,—That Clause 62, as amended, be further amended by striking out line 19, at page 119, and substituting the following:

“more than 60 of the 72 months preced-”

On motion of Jean-Guy Hudon, it was agreed,—That Clause 62, as amended, be further amended by striking out lines 16 and 17, at page 121, and substituting the following:

“chase pursuant to the terms of an arrangement established before Octobre 9, 1986 and not materially altered after October 8, 1986.”

Clause 62, as amended, carried.

Clauses 63 to 65 carried severally.

On Clause 66

After debate, Clause 66 carried.

On Clause 67

On motion of Jean-Guy Hudon, it was agreed,—That Clause 67 be amended by striking out lines 39 and 40, at page 125, and substituting the following:

“required under subsection 153(1) in respect of a contribution under a retirement”

On motion of Jean-Guy Hudon, it was agreed,—That Clause 67, as amended, be further amended by striking out line 19, at page 127, and substituting the following:

“tances in respect of amounts paid after”

Clause 67, as amended, carried.

Clause 68 carried.

On Clause 69

Sur motion de Jean-Guy Hudon, il est convenu,—Que l'article 57 ainsi modifié le soit de nouveau en substituant à la ligne 12, page 111, ce qui suit:

«de la corporation visée dans la mesure où le paragraphe»

L'article 57, sous sa forme modifiée, est adopté.

Les articles 58 à 61 sont respectivement adoptés.

Article 62

Sur motion de Jean-Guy Hudon, il est convenu,—Que l'article 62 soit modifié, dans la version française seulement, en substituant à la ligne 2, page 116, ce qui suit:

«que les montants ainsi payés font»

Sur motion de Jean-Guy Hudon, il est convenu,—Que l'article 62 ainsi modifié le soit de nouveau en substituant aux lignes 28 à 31, page 117, ce qui suit:

«(c) le double de toute prime versée ou de tout remboursement d'avance sur police, au titre du droit dans la police, est réputé être une cotisation versée dans le cadre de la»

Sur motion de Jean-Guy Hudon, il est convenu,—Que l'article 62 ainsi modifié le soit de nouveau en substituant à la ligne 15, page 119, ce qui suit:

«60 des 72 mois précédant la date où les»

Sur motion de Jean-Guy Hudon, il est convenu,—Que l'article 62 ainsi modifié le soit de nouveau en substituant aux lignes 15 et 16, page 121, ce qui suit:

«ment de prime ou par achat conformément à un mécanisme établi avant le 9 octobre 1986 et dont les modalités n'ont pas fait l'objet de modifications de fond après le 8 octobre 1986.»

L'article 62 ainsi modifié est adopté.

Les articles 63 à 65 sont respectivement adoptés.

Article 66

Après débat, l'article 66 est adopté.

Article 67

Sur motion de Jean-Guy Hudon, il est convenu,—Que l'article 67 soit modifié en substituant à la ligne 39, page 125, ce qui suit:

«l'exige le paragraphe 153(1), au titre d'une»

Sur motion de Jean-Guy Hudon, il est convenu,—Que l'article 67 ainsi modifié le soit de nouveau en substituant à la ligne 16, page 127, ce qui suit:

«tants remis au titre de montants payés»

L'article 67 ainsi modifié est adopté.

L'article 68 est adopté.

Article 69

On motion of Jean-Guy Hudon, it was agreed,—That Clause 69 be amended by striking out line 31, at page 130, and substituting the following:

“to be or may be received or enjoyed by any person”

On motion of Jean-Guy Hudon, it was agreed,—That Clause 69, as amended, be further amended by striking out line 31, at page 132, and substituting the following:

“before October 9, 1986 or established after October 8, 1986 pursuant to an agreement between a taxpayer and an employer or former employer of the taxpayer entered into before October 9, 1986 (in this subsection)”

Clause 69, as amended, carried.

On Clause 70

On motion of Jean-Guy Hudon, it was agreed,—That Clause 70 be amended by striking out line 29, at page 133, and substituting the following:

“(a) subject to paragraph (c),”

On motion of Jean-Guy Hudon, it was agreed,—That Clause 70, as amended, be further amended by striking out lines 41 to 46, at page 133, and substituting the following:

“the taxation year of the corporation that would, but for this subsection, have been its last taxation year ending before that time and would, but for this paragraph, have ended within the seven day period ending immediately before that time, that taxation year shall, except where control of the corporation has been acquired by a person or group of persons within the seven day period ending immediately before that, be deemed to end immediately”

On motion of Jean-Guy Hudon, it was agreed,—That Clause 70, as amended, be further amended by striking out line 13, at page 134, and substituting the following:

“ing entered into on or before that date, except that no return of income required to be filed under the said Act by a corporation for a taxation year that is deemed by subsection 249(4) of the said Act, as enacted by subsection (1), to have ended or commenced, as the case may be, be filed before the day that is 90 days after the day on which this Act is assented to.”

Clause 70, as amended, carried.

On Clause 71

By unanimous consent, it was agreed,—That Clause 71 be amended by adding, immediately after line 4, at page 136, the following:

“71.1 (1) Paragraph 259(1)(b) of the said Act is repealed and the following substituted therefor:

“(b) to hold at that time that proportion (referred to in this subsection as his “specified portion”) of each property of the trust that the number of units of the trust held by the taxpayer at that time is of the

Sur motion de Jean-Guy Hudon, il est convenu,—Que l'article 69 soit modifié en substituant aux lignes 37 et 38, page 130, ce qui suit:

«portant à des avantages que doit ou peut recevoir ou dont doit ou peut jouir une personne au»

Sur motion de Jean-Guy Hudon, il est convenu,—Que l'article 69 ainsi modifié le soit de nouveau en substituant à la ligne 36, page 132, ce qui suit:

«—établi avant le 9 octobre 1986 ou établi après le 8 octobre 1986 conformément à une convention conclue avant le 9 octobre 1986 entre un contribuable et son employeur ou ancien employeur (appelé»

L'article 69 ainsi modifié est adopté.

Article 70

Sur motion de Jean-Guy Hudon, il est convenu,—Que l'article 70 soit modifié en substituant à la ligne 25, page 153, ce qui suit:

«a) sous réserve de l'alinéa c), l'an»

Sur motion de Jean-Guy Hudon, il est convenu,—Que l'article 70 ainsi modifié le soit de nouveau en substituant aux lignes 35 à 42, page 133, ce qui suit:

«aux paragraphes (1) et (3), l'année d'imposition de la corporation qui, sans le présent paragraphe, serait la dernière année d'imposition se terminant avant cette date et qui, dans le présent alinéa, se serait terminée dans les sept jours se terminant immédiatement avant cette date est réputée se terminer immédiatement avant cette date sauf si une personne ou un groupe de personnes acquiert le contrôle de la corporation dans ces sept jours, à condition que la corporation en»

Sur motion de Jean-Guy Hudon, il est convenu,—Que l'article 70 ainsi modifié le soit de nouveau en substituant à la ligne 11, page 134, ce qui suit:

«1987. Toutefois la déclaration de revenu qu'une corporation doit produire en vertu de la présente loi pour une année d'imposition qui est réputée par le paragraphe 249(4) de la même loi, édicté par le paragraphe (1), s'être terminée ou avoir commencé, selon le cas, à un certain moment peut être produite le 90^e jour qui suit la date de sanction de la présente loi.»

L'article 70 ainsi modifié est adopté.

Article 71

Par consentement unanime, il est convenu,—Que l'article 71 soit modifié en ajoutant à la suite de la ligne 2, page 136, ce qui suit:

«71.1 (1) L'alinéa 259(1)b) de la même loi est abrogé et remplacé par ce qui suit:

«b) détenir à cette date la partie—appelée «partie déterminée» au présent paragraphe—de chaque bien de la fiducie représentée par le rapport entre le nombre d'unités de la fiducie que le contribuable

number of units of the trust outstanding at that time, and the cost amount to the trust of the taxpayer's specified portion of each such property shall be deemed to be the cost amount to the taxpayer of his specified portion of the property;"

(2) Subsection (1) is applicable with respect to periods occurring after 1985."

Clause 71, as amended, carried.

Clauses 72 to 78 carried severally.

The Title carried.

Bill C-64, as amended, carried.

ORDERED,—That the Chairman report Bill C-64, as amended, to the House.

ORDERED,—That Bill C-64, as amended, be reprinted for use of the House at report stage.

At 5:40 o'clock p.m., the Committee adjourned to the call of the Chair.

Eugene Morawski
Committee Clerk

détient à cette date et le nombre d'unités de la fiducie en circulation à cette date; le coût indiqué pour la fiducie de la partie déterminée de chaque bien de la fiducie est réputé être le coût indiqué pour le contribuable de cette partie déterminée;»

(2) le paragraphe (1) s'applique aux périodes tombant après 1985.»

L'article 71 ainsi modifié est adopté.

Les articles 72 à 78 sont respectivement adoptés.

Le titre est adopté.

Le projet de loi C-64, sous sa forme modifiée, est adopté.

IL EST ORDONNÉ,—Que le président fasse rapport, à la Chambre, du projet de loi C-64, sous sa forme modifiée.

IL EST ORDONNÉ,—Que le projet de loi C-64, sous sa forme modifiée, soit réimprimé à l'usage de la Chambre à l'étape du rapport.

À 17 h 40, le Comité s'ajourne jusqu'à nouvelle convocation du président.

Greffier de Comité
Eugene Morawski

EVIDENCE

[Recorded by Electronic Apparatus]

[Texte]

Thursday, December 3, 1987

• 1537

The Vice-Chairman: Ladies and gentlemen, in the interests of causing things to move—and I think all of us are here with that objective—I would like to reconvene the committee resuming consideration of its order of reference dated Tuesday, June 30, 1987, in relation to Bill C-64, an Act to amend the Income Tax Act.

When we broke for lunch, information had been requested by our colleague Paul McCrossan regarding clause 10. I would suggest to the committee that although we have a quorum, I think it would be particularly appropriate to wait for Mr. McCrossan before finishing clause 10. In the meantime, we might proceed with the clauses that follow and deal with them. We will come immediately back to clause 10 when our colleague Mr. McCrossan comes in. Is this all right with you?

Some hon. members: Agreed.

Mr. Minaker: Just as a suggestion, Mr. Chairman, where there are no amendments, we could consider clause so-and-so to clause so-and-so inclusive, unless there is one specific clause maybe Miss Nicholson might want to raise.

The Vice-Chairman: It is proposed that, where there is no amendments from the department or from any of the members, we deal with them in a group, as long as we do it slowly enough so you will not be caught with the feeling we are not stopping to see whether there is an amendment or some discussion. I will ask the clerk to give me the block to pass as a group.

Miss Nicholson: Mr. Chairman, I think such an arrangement can be done only with unanimous consent. It is a complex bill and I would rather go through it clause by clause. This does not necessarily mean that every clause needs discussion.

The Vice-Chairman: Understood. May we then, until the return of Mr. McCrossan, stand clause 10 and move immediately on to the next clauses?

Clause 10 allowed to stand.

• 1540

Clauses 11 to 14 agreed to.

On clause 15

The Vice-Chairman: On clause 15 I understand there is an amendment from the government.

I would like to welcome to our committee again Mr. Farber and his associates. Would there be a comment on the part of the department here, Mr. Farber?

TÉMOIGNAGES

[Enregistrement électronique]

[Traduction]

Le jeudi 3 décembre 1987

Le vice-président: Mesdames et messieurs, pour faire avancer les choses, ce que nous voulons probablement tous, nous reprenons tout de suite l'étude du bill C-64, Loi modifiant la Loi de l'impôt sur le revenu renvoyé à ce Comité le mardi 30 juin 1987.

Lorsque nous sommes partis déjeuner, notre collègue, Paul McCrossan, avait demandé des informations sur l'article 10. Nous avons déjà le quorum, mais il serait probablement bon d'attendre M. McCrossan avant d'en terminer avec l'article 10. En attendant, nous pouvons nous occuper des articles qui suivent. Dès que notre collègue, M. McCrossan, arrivera, nous reviendrons à l'article 10. Vous êtes d'accord?

Des voix: D'accord.

M. Minaker: Monsieur le président, une suggestion: lorsqu'il n'y a pas d'amendements, nous pourrions adopter des blocs d'articles, à moins que M^{me} Nicholson n'ait certaines questions à soulever.

Le vice-président: Lorsqu'il n'y a pas d'amendements du ministère ou des députés, on nous propose d'adopter les articles par blocs, à condition de ne pas aller trop vite, ce qui pourrait nous donner l'impression de manquer quelque chose. Je vais demander au greffier de me signaler les blocs d'articles qui peuvent être traités ensemble.

Mme Nicholson: Monsieur le président, je pense qu'une telle procédure ne peut être adoptée qu'avec l'assentiment unanime. C'est un bill particulièrement complexe, je préférerais procéder article par article. Cela ne veut d'ailleurs pas dire que nous devons discuter dans chaque cas.

Le vice-président: Entendu. Dans ce cas, nous réservons l'article 10 jusqu'au retour de M. McCrossan et nous passons aux articles suivants?

L'article 10 est réservé.

Les articles 11 à 14 sont adoptés.

Article 15

Le vice-président: Je crois que le gouvernement a un amendement à proposer à l'article 15.

Encore une fois, nous souhaitons la bienvenue à M. Farber et à ses collaborateurs. Monsieur Farber, est-ce que le ministère a des observations?

[Texte]

Mr. Harold White (Tax Policy Officer, Tax Policy and Legislation Branch, Department of Finance): Mr. Chairman, there are two parts to this amendment. One part of it provides an exception to the income-splitting rules or attribution rules. This exception is for a prescribed provincial pension plan, which is intended to be the Saskatchewan pension plan.

Basically the effect of it is that where one spouse transfers a right to benefits under the prescribed provincial plan, the income-splitting rules will not apply.

The other part of the motion relates to retirement compensation arrangements. The provision being amended ensures that fair market value rules will apply where there are transactions between the custodian of a retirement compensation arrangement and a beneficiary under the arrangement. The motion clarifies how those rules work where there is no consideration passing in a transaction. There is also a technical amendment there that corrects the wording in another situation where the consideration differs from fair market value.

Mrs. Collins: I move that clause 15 of Bill C-64 be amended (a) by striking out line 9 on page 22 and substituting the following:

Act or of a prescribed provincial pension plan) shall be included in computing the

(b) by striking out line 26 on page 22 and substituting the following:

defined in section 3 of that Act or of a prescribed provincial pension plan) that

(c) by striking out line 23 on page 23 and substituting the following:

property of the trust for no consideration or for consideration

and (d) by striking out line 27 on page 23 and substituting the following:

market value differs from the consideration or, if there is no consideration, the amount of the fair market value

Miss Nicholson: On August 12, when this bill was before committee, there was discussion of subclause 15.(2) of the bill. The explanation given at the time was that, where in the case of marriage breakdown the Canada Pension Plan benefits could be split, the intent of the bill as it was before us then was to ensure that the money would be taxed in the hands of the spouse who actually received it.

Why was there perceived to be a necessity for an amendment to it? Was it not considered clear enough?

Mr. Len Farber (Director, Tax Policy and Legislation, Department of Finance): Mr. Chairman, an amendment was required there because in the absence of the amendment under the attribution rules, where an amount is directed to a spouse, it would have been taxed in the hands of the spouse who did not receive it. This just

[Traduction]

M. Harold White (chargé de la politique fiscale, Direction de la politique et de la législation de l'impôt, ministère des Finances): Monsieur le président, cet amendement est en deux parties. D'une part, il prévoit une exception aux règles d'attribution ou de partage du revenu dans le cas d'un régime de pensions provincial visé, c'est-à-dire le régime de pensions de la Saskatchewan.

Autrement dit, lorsqu'un conjoint transfère un droit à une prestation dans le cadre du régime provincial visé, les règles de partage du revenu ne s'appliquent pas.

L'autre partie de la motion porte sur les conventions de retraite. La disposition que l'on modifie garantit une valeur équitable en cas de transaction entre le responsable d'une convention de retraite et un bénéficiaire de la convention. La motion précise le fonctionnement des règles lorsqu'il n'y a pas de contrepartie dans une transaction. Il y a également une modification technique qui rectifie l'énoncé dans une autre situation où la contrepartie est différente de la valeur du marché.

Mme Collins: Je propose que l'article 15 du bill C-64 soit modifié a) en remplaçant la ligne 9, page 22, par ce qui suit:

de l'article 3 de cette loi ou d'un régime provincial de pensions visé—doit être inclus

b) en remplaçant la ligne 27, page 22, par ce qui suit:

cette loi ou un régime provincial de pensions visé—qui serait, si ce droit n'avait

c) en remplaçant la ligne 31, page 23 par ce qui suit:

d'en jouir sans contrepartie ou en contrepartie d'un montant

et d) en remplaçant les lignes 16 et 17, page 23 par ce qui suit:

la différence éventuelle entre la juste valeur marchande et la contrepartie ou, à défaut de contrepartie, la juste valeur marchande:

Mme Nicholson: Le 12 août, quand ce bill était à l'étude au Comité, on avait discuté de l'alinéa 15.(2). A l'époque, on nous avait expliqué qu'en cas de séparation des conjoints, les prestations du Régime de pensions du Canada pouvaient être partagées et que le bill cherchait à s'assurer que c'était bien le conjoint qui avait l'argent qui serait imposé.

Pourquoi a-t-on jugé bon de modifier cela? Est-ce que cela n'était pas assez clair?

M. Len Farber (directeur, Direction de la politique et de la législation de l'impôt, ministère des Finances): Monsieur le président, un amendement s'est avéré nécessaire car faute de cela, avec les règles d'attribution, lorsqu'une somme est versée à un conjoint, c'est l'autre conjoint qui serait imposé. Autrement dit, lorsque les

[Text]

ensures that where there is a direction to split benefits one way or the other, that it will actually be taxed in the hands of the recipient.

• 1545

Miss Nicholson: If it is that simple, why was it not done in the draft bill in the first place? Why are we faced with a further amendment today?

Mr. Farber: The only answer I have at the moment is in drafting all of these amendments it was an oversight, and it is a consequential amendment to the main provision.

Mr. Orlikow: I would like to ask what kind of people are affected by this clause in the bill. Are ordinary people affected, or are we talking just about people in the high income bracket? Will there be any loss of tax revenue to governments, federal and provincial, by this? In other words, is this just another clause of the many we have which give people with large incomes ways not to pay tax?

Mr. Farber: No, Mr. Chairman, I think quite the opposite. I think it is probably more beneficial to lower-income spouses as opposed to wealthier couples. The degree to which it may have an impact would probably be very minimal. The amounts are not large and between the Saskatchewan Pension Plan and the Canada Pension Plan, it affects primarily couples who split up as well, and I do not think you are looking at a universal program that would cost a lot.

Mr. Orlikow: Would this help wives when a divorce or separation takes place? In the past I have had people call me and say, well, I got divorced a few years ago and therefore the Canada Pension that my husband is getting or the Canada Pension survivors benefit, I am getting nothing out of that. Will this have any effect on that?

Mr. Farber: The existing provisions in the act already accommodate that.

Mr. White: Mr. Chairman, the provisions in Bill C-64, which this motion would amend, allow for the splitting of benefits under the Canada Pension Plan. The Canada Pension Plan legislation itself allows for the splitting of benefits but this amendment to the Income Tax Act allows for that splitting to be done without the income splitting rules applying to attribute the income to one or the other spouses. The motion would provide an additional exception, for the prescribed provincial pension plan.

Miss Nicholson: I would like a further explanation of the purpose of the amendment in paragraph 15(d), and particularly what definition of market value is being used.

Mr. White: The market value, Mr. Chairman, would be fair market value. The effect of the amendment is

[Translation]

prestations doivent être séparées d'une façon ou d'une autre, elles seront imposées chez celui qui les reçoit.

Mme Nicholson: Si c'est aussi simple, pourquoi ne l'a-t-on pas fait au départ? Pourquoi a-t-on été forcés de déposer un nouvel amendement aujourd'hui?

M. Farber: Que je sache, c'est un oubli quand on a rédigé tous ces amendements et c'est un amendement corrélatif à la principale disposition.

M. Orlikow: J'aimerais savoir qui sont les gens qui sont touchés par cet amendement. Est-ce que les gens ordinaires sont affectés ou bien s'agit-il uniquement de ceux qui sont en haut de l'échelle des revenus? Est-ce que les gouvernements, fédéral et provinciaux, vont perdre des revenus fiscaux à cause de cet amendement? Autrement dit, s'agit-il d'un amendement de plus qui permet aux gens qui ont de gros revenus de ne pas payer d'impôt?

M. Farber: Non, monsieur le président, je crois que c'est tout à fait l'inverse. C'est probablement plus utile aux conjoints qui ont de faibles revenus qu'aux couples aisés. Cela dit, l'impact sera probablement minime. Ce ne sont pas de grosses sommes et entre le Régime de pensions de la Saskatchewan et le Régime de pensions du Canada, cela touche surtout des couples qui se sont séparés également, c'est loin d'être un programme universel qui coûtera très cher.

M. Orlikow: Est-ce que cela peut aider les femmes en cas de divorce ou de séparation? Par le passé, des gens m'ont téléphoné pour me dire: J'ai divorcé il y a quelques années, et c'est mon mari qui touche les prestations du Régime de pensions du Canada ou les prestations aux survivants, moi je n'en vois rien. Est-ce que cela modifiera cette situation?

M. Farber: Les dispositions de la loi modifient déjà cette situation.

M. White: Monsieur le président, les dispositions du Bill C-64 qui serait modifiées par cette motion, permettent de séparer les prestations du Régime de pensions du Canada. La loi qui régit le Régime de pensions du Canada autorise à séparer les prestations mais cet amendement à la Loi de l'impôt sur le revenu permet d'effectuer le partage sans appliquer les règles de partage du revenu qui attribuent le revenu à l'un ou l'autre conjoint. La motion prévoit une exception supplémentaire dans le cas du régime de pensions provincial visé.

Mme Nicholson: J'aimerais qu'on m'explique un peu mieux l'objet de l'amendement à l'alinéa 15d), et en particulier la définition de la valeur marchande qui est utilisée.

M. White: Monsieur le président, la valeur marchande, c'est la juste valeur marchande. L'amendement précise

[Texte]

basically to clarify the wording without any intended change in meaning between what is already in Bill C-64.

Miss Nicholson: Then where did the necessity for the change of wording come from? Were there representations received from any particular groups?

Mr. White: Not to my knowledge, Mr. Chairman. I guess the reason is actually fairly technical.

• 1550

If you look at page 23 of the bill, paragraph 15.(11)(b) speaks of disposing of property for less than fair market value. Then if you look at the words down in line 27, it talks about such fair market value exceeding the consideration.

The words down in line 27 right now do apply for purposes of paragraph 15.(11)(a) but they do not apply for paragraph 15.(11)(b). Paragraph 15.(11)(a) applies in the case where the fair market value exceeds the consideration. Paragraph 15.(11)(b) applies where the fair market value is less than the consideration. What we are actually looking for is the difference between fair market value and the consideration. The new wording we are proposing in paragraph 15.(1)(d) of the amendment will get that resolved.

Miss Nicholson: Mr. Chairman, I am uneasy about the implications of this. If a trust governed by a retirement compensation arrangement sells property to a person for less than the fair market value, the Department of National Revenue will want to tax somebody on the benefit received.

Mr. White: If the trust disposes of the property to a beneficiary for less than fair market value, the beneficiary has received a benefit from the trust equal to that difference. The effect of this provision in the bill will be to get the same tax results as if the trust had paid the beneficiary a benefit equal to that difference.

Amendment agreed to.

Clause 15 as amended agreed to.

The Vice-Chairman: With the approval of the committee, we would return to clause 10. Paul McCrossan, who had asked for some special information from the department, has rejoined us. Has the department been able to put together that package?

Mr. Farber: Mr. Chairman, I think we have some more information. I do not however have a package of information to hand out.

The information requested this morning was to dispel an allegation Mr. McCrossan made that Mr. Dodge may have misled the committee with respect to certain statements made before this committee on January 28 of this year concerning certain discussions or positions government officials or Members of Parliament for the Province of Ontario may have made to the department concerning international banking centres.

[Traduction]

l'énoncé sans modifier la signification des dispositions du Bill C-64.

Mme Nicholson: Dans ce cas, pourquoi a-t-on jugé bon de faire un changement? Est-ce que certains groupes les ont réclamés?

M. White: Pas que je sache, monsieur le président. La raison est en fait assez technique.

Si vous regardez la page 23 du bill, le paragraphe 15.(11)(b) parle de la possibilité de vendre un bien à une valeur inférieur à la juste valeur marchande. Maintenant, si vous vous reportez à la ligne 16, on y parle de l'excédent éventuel de la juste valeur marchande.

Pour l'instant, cette disposition s'applique aux fins du paragraphe 15.(11)(a), mais non aux fins du paragraphe 15.(11)(b). Le paragraphe 15.(11)(a) s'applique lorsque la juste valeur marchande dépasse la contrepartie. Le paragraphe 15.(11)(b) s'applique lorsque la juste valeur marchande est inférieure à la contrepartie. Autrement dit, ce que nous cherchons, c'est la différence entre la juste valeur marchande et la contrepartie. Le nouvel énoncé que nous proposons au paragraphe 15.(1)(d) de l'amendement règle le problème.

Mme Nicholson: Monsieur le président, je ne sais pas si j'aime beaucoup les implications de cela. Si une fiducie régie par une convention de retraite vend un bien à une personne pour moins que sa juste valeur marchande, le ministère du Revenu national va chercher à imposer quelqu'un sur les bénéfices réalisés.

M. White: Si la fiducie vend ce bien à un bénéficiaire à moins de sa juste valeur marchande, le bénéficiaire a tiré un bénéfice de cette fiducie qui est égal à la différence. Avec cette nouvelle disposition, du point de vue fiscal, les résultats seront les mêmes que si la fiducie avait versé au bénéficiaire une somme égale à cette différence.

L'amendement est adopté.

L'article 15, tel que modifié, est adopté.

Le vice-président: Si le comité le veut bien, nous allons revenir à l'article 10. Paul McCrossan, qui avait demandé des informations particulières au ministère, vient de revenir. Est-ce que le ministère a pu préparer ces informations?

M. Farber: Monsieur le président, nous avons, effectivement, des informations complémentaires. Cela dit, je n'ai pas un dossier à vous soumettre.

Ce matin, M. McCrossan a prétendu que M. Dodge avait peut-être trompé le comité le 28 janvier dernier au sujet de la position de certains membres du gouvernement ou du Parlement de la province de l'Ontario à propos des centres bancaires internationaux.

[Text]

We have reviewed the correspondence and minutes of the hearing of January 28 as well as the relevant dates when the legislation for international banking centres was released. Some of the minutes of the meetings conducted and discussions held with senior officials in the Ontario government, representatives of Metro-Toronto and the Toronto Board of Trade and excerpts from the Speech from the Throne of April 22, 1986 for the Province of Ontario state quite emphatically that the Province of Ontario is certainly interested in international banking centre legislation, but will await that legislation being tabled before doing anything.

• 1555

Mr. Chairman, as you know, the legislation about international banking centres was tabled the same day the hearing took place, January 28. As a result, I totally concur with anything Mr. Dodge said at that time. I have no difficulty with the statement he made and I do not believe he misled this committee in any manner whatsoever. There had been ongoing discussions with people from the province of Ontario, including the Board of Trade. Those discussions were in the context of the proposal laid out and the legislation had not been tabled as of that date.

Mr. Minaker: I would like to raise the question about the value and size of loans in the various banks. Were you able to get any information on that?

Mr. Brian J. Ernewein (Tax Policy Officer, Tax Policy and Legislation Branch, Department of Finance): No, not on a bank-by-bank basis. During the time we had since the break this morning, we checked with the Financial Institutions Branch and I believe they did some checking on their own. I am not sure if it was the Bank of Canada or the Inspector General. In any event there does not appear to be a bank-by-bank breakdown of offshore deposits or loans, but we endeavoured to find the information.

I would like to go back to the point raised earlier this morning. I am not sure that the actual income of the bank is a direct connection to the tax payable.

Miss Nicholson: I have trouble with this particular amendment because of the actual figure, but I am very much in sympathy with the principle of setting some kind of cap. We all have been concerned for a long time about the problems with tax expenditures. When the former member for Capilano, Mr. Huntington, was Chairman of the Public Accounts Committee, he did a lot to raise the consciousness of Members of Parliament on this issue.

We now have a situation where, according to the Auditor General, the amount of money forgone by the treasury each year as a result of tax expenditures is equivalent to our entire deficit. So often once you put a tax expenditure measure in place, it is demand driven. We have seen time and time again that whatever projections the Department of Finance does, they do not match with

[Translation]

Nous avons reçu la correspondance et le procès-verbal des discussions du 28 janvier ainsi que les dates de publication du projet de loi sur les centres bancaires internationaux. Nous avons également le procès-verbal de certaines réunions entre des hauts fonctionnaires du gouvernement de l'Ontario, des représentants du Toronto Métropolitain et la Chambre de commerce de Toronto ainsi que des extraits du Discours du Trône du 22 avril 1986; la province de l'Ontario déclare catégoriquement qu'elle s'intéresse à la législation sur le centre bancaire international mais qu'elle attendra le dépôt du projet de loi avant de faire quoi que ce soit.

Monsieur le président, comme vous le savez, le projet de loi sur les centres bancaires internationaux a été déposé le jour même de la réunion, le 28 janvier. Par conséquent, je confirme absolument tout ce que M. Dodge a déclaré à l'époque. Je ne vois rien à redire aux déclarations qu'il a faites, et je suis convaincu qu'il n'a pas trompé ce comité. Il y a effectivement eu des discussions avec les gens de la province, y compris la Chambre de commerce. Ces discussions ont tourné autour des propositions et, à l'époque, le projet de loi n'avait pas encore été déposé.

M. Minaker: J'ai des questions à poser au sujet de la valeur et de l'importance des prêts dans les diverses banques. Est-ce que vous avez des informations à ce sujet?

M. Brian J. Ernewein (responsable de la politique fiscale, Direction de la politique et de la législation de l'impôt, ministère des Finances): Non, pas par banque. Depuis la fin de la séance de ce matin, nous avons vérifié auprès de la direction des institutions financières et je vois qu'ils ont fait également des vérifications. Je ne sais pas s'il s'agissait de la Banque du Canada ou de l'inspecteur général. Quoi qu'il en soit, apparemment il n'y a pas de liste des dépôts ou des prêts étrangers par banque, mais nous avons essayé de trouver cette information.

J'aimerais revenir sur quelque chose qui a été dit ce matin. Je ne suis pas certain que le revenu véritable d'une banque soit lié directement à l'impôt exigible.

Mme Nicholson: Cet amendement m'inquiète à cause du chiffre, mais l'idée de fixer un plafond me plaît énormément. Les dépenses fiscales sont depuis longtemps un grand sujet de préoccupation et lorsque l'ancien député de Capilano, M. Huntington, était président du comité des Comptes publics, il a beaucoup fait pour familiariser les députés avec ce problème.

D'après le Vérificateur général, le trésor renonce chaque année à cause des dépenses fiscales, à l'équivalent de notre déficit total. Le plus souvent, lorsqu'on introduit une mesure qui se traduit par une dépense fiscale, la demande la maintient en place. Nous l'avons constaté très souvent, quelles que soient les projections du ministère des Finances, les résultats sont différents. Les avocats et les

[Texte]

the outcome. The ingenuity of lawyers and accountants in the private sector far outruns whatever can be anticipated by public servants.

The major Canadian banks are not going to do the kinds of things which we heard the auditors in New York are worried about, such as attributing other costs to the IBCs and therefore inflating their tax reduction. We have no guarantee who is going to be able to use this IBC. Once the thing is in the legislation, we do not know. We are not only talking about our major Canadian banks; we are also talking about institutions in the future which might be much less reputable. There is potential for tremendous tax leakage.

The other very disconcerting thing is that as we have been examining this issue, the Department of Finance has not been able to come up with clear statements of numbers, but I will not labour again what was discussed this morning.

I would like to see some kind of cap. Frankly I think Mr. McCrossan's cap is a little generous, but in the interests of having some cap and believing that some cap is better than no cap, I will support the amendment.

• 1600

Mr. Orlikow: Mr. Chairman, I am going to support the amendment although I want to make it very clear that members of the New Democratic Party are very skeptical, and that is putting it as politely as I can, about any more tax breaks given to the banks or anybody else. As has already been indicated, these tax expenditures cost the people of Canada tens of billions of dollars, at least 90% or more of which I am sure goes to very big corporations.

I remind members of the last disastrous proposal by the former Liberal government that there be a tax credit on scientific research expenditures which they estimated might cost the treasury \$300 million, and which cost \$3 billion.

I have to say I was amazed when I saw a report that the Deputy Minister of Finance, when asked to explain how they could have miscalculated so badly, said they did not realize there were so many dishonest people. I find it strange the department would assume when it helps devise a scheme under which individuals or corporations can avoid paying taxes, and people avail themselves of that opportunity, that the deputy minister attributes it to their being dishonest. If I understand correctly at least a substantial percentage of them just followed the provision in the tax law which the then-government permitted.

I am less than enthused about giving anything to our banks when I know that the teller in the bank across the street pays a higher percentage of her income in personal income tax than the bank she works for pays in corporate taxes. A number of our banks have paid no taxes at all in recent years. Since I cannot see that this is going to provide any substantial number of jobs, either in Vancouver or Montreal, jobs which do not already exist, I

[Traduction]

comptables du secteur privé trouvent toujours un moyen que les fonctionnaires n'avaient pas prévu.

Les principales banques canadiennes ne feront pas ce que les vérificateurs newyorkais redoutent, par exemple attribuer d'autres coûts aux centres bancaires internationaux pour gonfler leur réduction fiscale. Nous ne savons pas vraiment qui pourra utiliser ce centre bancaire international. Une fois dans la législation, c'est l'inconnu. Nos principales banques canadiennes ne sont pas les seules en cause; dans l'avenir, il pourrait y avoir d'autres institutions beaucoup moins respectables. Les fuites fiscales possibles sont innombrables.

Il y a une autre considération très déconcertante, c'est que le ministère des Finances n'a pas réussi à nous citer des chiffres vraiment clairs; cela dit, je ne reviendrai pas sur ce qui a été dit ce matin.

J'aimerais beaucoup qu'on impose un plafond. Je vous avoue que le plafond proposé par M. McCrossan me semble un peu trop généreux, mais je suis convaincue que c'est mieux que rien, et je soutiendrai l'amendement.

M. Orlikow: Monsieur le président, je voterai également en faveur de l'amendement mais je tiens à dire que les membres du Nouveau Parti Démocratique sont très sceptiques, c'est le moins qu'on puisse dire, quand on parle d'accorder une fois de plus des allègements fiscaux aux banques. Comme on l'a déjà dit, ces dépenses fiscales coûtent à la population canadienne des dizaines de milliards de dollars dont 90 p. 100 vont aux très grosses sociétés, j'en suis convaincu.

Je me permets de rappeler aux députés la dernière proposition désastreuse de l'ancien gouvernement libéral, ce crédit d'impôt pour la recherche scientifique qui devait coûter au trésor 300 millions de dollars et qui a fini par lui coûter 3 milliards de dollars.

J'avais été assez renversé quand le Sous-ministre des finances, à qui on demandait comment on pouvait se tromper à ce point, avait répondu qu'il ne savait pas qu'il y avait tant de gens malhonnêtes. Lorsque le ministère met sur pied un système qui permet aux particuliers ou aux sociétés d'éviter de payer des impôts, lorsque ceux-ci en profitent, je m'étonne de voir le Sous-ministre attribuer cela à leur malhonnêteté. Si j'ai bien compris, beaucoup parmi eux s'étaient contentés d'observer les dispositions de la Loi fiscale adoptées par le gouvernement de l'époque.

Je suis loin d'être enthousiaste quand il s'agit de donner quelque chose à nos banques quand je sais que la caissière de la banque d'en face paie en impôt un pourcentage plus élevé de son revenu que la banque pour laquelle elle travaille ne paie d'impôt sur les sociétés. Ces dernières années, il y a plusieurs banques qui n'ont payé aucun impôt. Comme je ne vois pas comment cela peut augmenter le nombre des emplois, que ce soit à

[Text]

see very little reason why we should be giving any consideration to this proposal at all.

However, the amendment is better than the original so I propose to vote for the amendment.

Amendment negatived: nays, 5; yeas, 4.

Miss Nicholson: I have a further amendment, Mr. Chairman. The purpose of my amendment would be to set a sunset clause on this legislation. If it is valid it can prove itself in three years and be renewed, and if not valid the answer is obvious.

• 1605

This is a bill that has the potential for enormous uncontrolled loss of revenue without any compensating benefits. Therefore I would deem it only prudent to have a sunset clause. If in fact my fears are unfounded and the measure proves itself to be useful in three years, it can be continued. If not, it could be wound down.

I move that clause 10 of Bill C-64 be amended by adding immediately after line 26 at page 16 the following:

(3) Subsections (1) and (2) expire on December 31, 1990.

Mr. McCrossan: The Lambert Royal Commission, which was published in 1979, recommended that all financial incentives should have a sunset clause and five years was suggested, as I recall.

The principle of sunset clauses is something I support, in general, but it has not yet been the practice. I would like to see it adopted on a wide-scale basis. Three years would be too short in this particular case to give it a reasonable chance to start up.

I would like to support sunset clauses in all tax expenditures at the five-year level as recommended by the royal commission, but identifying this particular measure as the first and only one would not be politically wise. I will be voting against the amendment for the reasons noted.

Motion negatived.

Miss Nicholson: I would like to speak on clause 10, Mr. Chairman, before it carries. Since we have been joined this afternoon by some members who have not been here before, and whom I welcome very sincerely, I would just like to review the whole history of this measure, because some of the history goes back to previous parliaments.

In the 1970s there were banks in New York State that were very concerned because they felt they were closed out of the European markets, the Eurobond markets. They felt their competitiveness was limited by three factors: one, the high city taxes; two, the high state taxes;

[Translation]

Vancouver ou à Montréal, créer des emplois qui n'existent pas déjà, je vois mal quelle raison il y aurait à adopter cette proposition.

Cela dit, l'amendement est préférable à l'original, je voterai donc en faveur de l'amendement.

L'amendement est rejeté par 5 voix contre 4.

Mme Nicholson: Monsieur le président, j'ai encore un amendement. Cet amendement introduirait une clause de temporisation dans le projet de loi. Si ces dispositions sont valables, on pourra le constater d'ici trois ans, et il sera possible de reconduire. Sinon, la réponse est évidente.

C'est un projet de loi qui pourrait fort bien entraîner une perte non contrôlée de recettes sans aucun avantage en contrepartie. Il me paraîtrait donc prudent d'avoir une clause de temporisation. Si l'avenir prouve que mes craintes sont injustifiées et si la mesure s'avère utile dans trois ans, elle pourra être prolongée. Dans le cas contraire, elle pourrait être progressivement éliminée.

Je propose donc que l'article 10 du projet de loi C-64 soit modifié en ajoutant immédiatement à la suite de la ligne 22, page 16, ce qui suit:

(3) les paragraphes (1) et (2) se terminent le 31 décembre 1990.

M. McCrossan: Dans son rapport publié en 1979, la Commission royale Lambert a recommandé que toutes les incitations financières soient assujetties à une clause de temporisation, et si je me souviens bien, on avait proposé une durée de cinq ans.

Je suis, en général, favorable au principe des clauses de temporisation, mais leur pratique n'est pas encore répandue. Mais je souhaiterais qu'elle soit plus largement adoptée. Dans le cas qui nous concerne, il faudrait plus de trois années pour que le démarrage se fasse et qu'il ait d'honnêtes chances de réussir.

J'aimerais que toute dépense fiscale soit assortie d'une clause de temporisation et que la durée de cinq ans recommandée par la Commission royale soit retenue, mais politiquement, il ne serait pas sage de le faire uniquement pour cette mesure particulière. C'est pour ces raisons que je voterais contre la modification.

La motion est rejetée.

Mme Nicholson: J'aimerais revenir sur l'article 10, monsieur le président, avant qu'il soit adopté. Comme de nouveaux membres sont venus ce joindre à nous cet après-midi, à qui je souhaite d'ailleurs très sincèrement la bienvenue, j'aimerais passer en revue tout l'historique de cette mesure, car elle remonte à des législatures antérieures.

Dans les années 1970, certaines banques de l'État de New York étaient très inquiètes parce qu'elles avaient l'impression d'avoir été écartées du marché européen, des marchés des Euro-obligations. Elles estimaient leur compétitivité limitée par trois facteurs: le premier, les

[Texte]

and three, and most importantly, certain requirements of the Federal Reserve.

They proceeded to think of an international banking centre as something that would enable them to compete more effectively in the European markets. They organized very effectively. A special high-powered commission was set up by then Governor Carey to look into the implications of reducing both state and local taxes for banks and encouraging the Federal Reserve to change their regulations. There were many bankers on this high-powered commission. I want to stress that, because the movement for IBCs in the United States began with bankers.

• 1610

In Canada it began with chambers of commerce; our banks have never requested them. Our banks have not felt themselves closed out of competing overseas because of these three sets of factors: city taxes, state taxes or provincial taxes, and the federal regulations.

When this marvellous lobbying effort got going in New York they hired some very effective public relations firms and they did a very impressive attack on public opinion in order to get what they wanted. One banker whom I met had gone on television at that time for, as he said, the first and only time in his life. He is a very discreet banker who does not normally appear publicly—but he was coached by a public relations firm for his appearance before the cameras. As part of his coaching he was told to be prepared for a question on how many jobs the IBCs would create. He said to the coach from the public relations firm, well, I do not really see it creating many jobs. Do you have other information? The answer was, oh, yes, the figure we are using, that is being used, is 150,000. You really can feel quite safe using that figure. So I believe he used the figure.

The hype went on. Of course it spread over into Montreal. The IBCs were established in New York, and my impression is that even without the reduction in state and local taxes, they could have been established with simply the change in the federal regulations.

Be that as it may, they were established, and subsequently have been established in other states and we heard in some cases they do not do very much business but the banks think it is nice to be able to put in their annual report that they are an IBC. It adds a little status, even if there is no business done.

The New York ones told us they were not able to give us firm figures about how much more business they were doing as a result of an IBC. New York is an international centre in any case.

[Traduction]

taxes municipales élevées; le deuxième, les taxes d'État élevées; et le troisième, qui est le plus important, certaines exigences de la Federal Reserve Bank.

Elles sont parvenues à la conclusion qu'un centre bancaire international leur permettrait de concourir plus efficacement sur les marchés européens. Elles se sont organisées avec beaucoup d'efficacité. Une commission spéciale de haut niveau a été constituée par le gouverneur de l'époque, M. Carey, qui fut chargé d'étudier les conséquences de la réduction des taxes d'État et des taxes municipales imposées aux banques et d'encourager la Federal Reserve Bank à modifier ses règlements. De nombreux banquiers faisaient partie de cette Commission. Je tiens à le souligner, car le mouvement en faveur des CBI aux États-Unis a été lancé par les banquiers.

Au Canada, ce sont les chambres de commerce, et non les banques, qui les ont réclamés. Nos banques ne se sont pas senties écartées des marchés d'outre-mer à cause de ces trois séries de facteurs: taxes municipales, taxes d'État ou provinciales, et règlements fédéraux.

Lorsque les banques ont entrepris ce merveilleux effort de lobbying à New York, elles ont recruté des sociétés de relations publiques très efficaces et ont mené une offensive très impressionnante auprès de l'opinion publique pour obtenir ce qu'elles voulaient. Un banquier que j'ai rencontré était alors passé à la télévision, comme il disait, pour la première et dernière fois de sa vie. C'est un banquier extrêmement discret qui ne paraît pas normalement en public—il avait été préparé pour l'épreuve des caméras par une société de relations publiques. Celle-ci lui avait notamment dit d'être prêt à répondre à une question sur le nombre d'emplois que les CBI créeraient. Il avait alors répondu à son moniteur qu'il ne pensait pas que cela permettrait de créer beaucoup d'emplois et lui avait demandé s'il avait d'autres renseignements; à quoi on lui avait répondu que l'on utilisait le chiffre de 150,000 et on lui avait dit qu'il ne risquait rien à l'utiliser. Et je crois que c'est ce qu'il a fait.

Le battage s'est poursuivi et a, bien sûr, gagné Montréal. Les CBI ont été créés à New York, et j'ai bien l'impression que même sans la réduction des taxes municipales et d'État, ils auraient pu l'être en modifiant simplement les règlements fédéraux.

Quoi qu'il en soit, ces centres ont donc été établis, et l'on également été plus tard dans d'autres états. D'après ce que nous savons, ils ne font pas toujours beaucoup d'affaires mais cela flatte les banques de pouvoir dire dans leur rapport annuel qu'elles sont un CBI. Cela leur donne un peu de prestige, même si les affaires ne suivent pas.

Les banques newyorkaises nous ont dit qu'elles n'étaient pas en mesure de nous fournir des chiffres fermes sur l'augmentation de leurs affaires du fait qu'elles étaient devenues des CBI. De toute façon, New York est un centre international.

[Text]

The point I want to make is that when the movement started for IBCs in New York it was started by bankers, for three specific circumstances which do not obtain here.

Subsequently the Montreal Board of Trade, obviously having heard all the New York hype and having heard the figures of hundreds of thousands of jobs, thought this would be a nice thing to have. They approached Marc Lalonde when he was Minister of Finance. A study was made by Louis Rasminsky, then the Assistant Governor of the Bank of Canada and we have had that study before this committee; the recommendation was that the benefits were marginal and the risk of loss to the treasury quite high. So that did not proceed.

I know also in the last Parliament, since the Montreal Board of Trade obviously talked to other boards of trade, the Toronto Board of Trade inquired about an IBC and so did some cities in the west, including Edmonton.

Then the matter was dormant until around the time of the last election when it surfaced and somebody promised Montreal and Vancouver that they would have an IBC and it would bring jobs and economic activity and everything you ever heard of.

All through this latest development the banks have been conspicuously absent, and Mr. MacIntosh of the Canadian Bankers' Association, in his evidence before this committee made it very clear that the banks did not request the IBC.

• 1615

We certainly have had evidence here before us that the officials from the Department of Finance went on what sounded like a marketing blitz to Montreal, to Toronto, and to other places, meeting with people from boards of trade and municipalities on the issue of IBCs, but not talking to the banks or the financial institutions who might be presumed to know what value, if any, there is in it.

There was very clear evidence given before this committee about days and dates, and it is quite clear that for the best part of a year, there were negotiations going on between the department of Finance and various boards of trade and municipalities without any direct approach to the bankers. Then the Canadian Bankers' Association got wind of it and submitted their views, which essentially were very similar to those of Mr. Rasminsky several years before. We have the situation that municipalities and boards of trade naturally want more economic action in their cities. That is their role, that is something we respect, and something everyone here would approve and want to assist.

[Translation]

Ce que je veux souligner, c'est que le mouvement lancé en faveur des CBI à New York a été le fait des banquiers, et qu'ils étaient motivés par trois facteurs précis qui ne jouent pas ici.

Par la suite, la Chambre de commerce de Montréal, qui avait manifestement suivi tout le battage fait à New York et entendu parler de ces centaines de milliers d'emplois, s'est dite à son tour qu'il serait bon d'avoir la même chose. Elle a donc fait une démarche auprès de Marc Lalonde, qui était alors ministre des Finances. Une étude fut faite par Louis Rasminsky, à l'époque, gouverneur adjoint de la Banque du Canada; nous avons soumis ce document au comité. Il concluait que les avantages étaient marginaux et que les risques de perte pour le Trésor, fort élevés. Les choses ne sont donc pas allées plus loin.

Je sais également qu'au cours de la dernière législature, la Chambre de commerce de Montréal ayant manifestement parlé à d'autres chambres de commerce, la Chambre de commerce de Toronto s'était renseignée sur la possibilité de créer un CBI et d'autres villes de l'Ouest, dont Edmonton, en avaient fait autant.

La question est demeurée en sommeil jusqu'à l'époque des dernières élections. Elle est alors revenue à la surface et quelqu'un a promis à Montréal et à Vancouver qu'elles auraient un CBI et que cela créerait des emplois, stimulerait l'activité économique et apporterait tous les avantages imaginables.

À ce stade de la question, les banques ont brillé par leur absence, et M. MacIntosh, de l'Association des banquiers canadiens, a très clairement établi, dans sa déposition devant ce comité, que les banques n'avaient pas demandé de CBI.

On nous a certainement montré que les fonctionnaires du ministère des Finances ont lancé une véritable offensive de commercialisation à Montréal, à Toronto, et en d'autres endroits, où ils ont rencontré les membres des Chambres de commerce et des municipalités avec qui ils ont discuté de la question des CBI. Ils n'ont cependant pas eu d'entretien avec les banques ou les établissements financiers dont on pourrait s'attendre à ce qu'ils connaissent la valeur, à supposer qu'ils en aient une, de tels centres.

Les témoignages présentés devant ce Comité ont été très précis sur les jours et les dates, et il est tout à fait clair qu'pendant une bonne partie de l'année, des négociations se sont poursuivies entre le ministère des Finances et diverses chambres de commerce et municipalités, sans qu'aucun contact n'ait été pris avec les banquiers. L'Association des banquiers canadiens a alors eu vent de l'affaire et a présenté ses vues, qui, pour l'essentiel, étaient très semblables à celles qu'avait exprimées M. Rasminsky, il y a plusieurs années. Actuellement, les municipalités et les chambres de commerce veulent donc naturellement une plus grande activité économique dans leurs villes. C'est leur rôle, et

[Texte]

Both Montreal and Vancouver have high rates of unemployment. I am sure everybody here would support measures taken under the regional economic expansion programs or export assistance, or any other measures which would assist them to revitalize their economies and take advantage of their very strategic geographical positions, but this measure is not it.

We have had a white paper on taxation here recently, which this committee has been studying night and day for many months. We were told that the base broadening, which was going to lead to some reduction of taxes, was going to be achieved by removing or reducing certain tax exemptions. Here we have yet another one for which we have no costs and no forecasts. It is wide open, it is going to be demand driven, we have no idea what we are getting into, and it affects banks and banks did not request it.

There is a real inconsistency between this measure and the so-called tax reform that we have been dealing with. Among our unknowns, we have not had anything like the sensible cost-benefit analysis that we have been requesting from the Department of Finance the whole year that this matter has been before us, and we still do not know how much it is going to be used. It is quite possible that it will not be used. It is quite possible that the banks will simply ignore it, that they will continue to do their business on a base of market forces, and that this government has set region against region and member against member for no reason, and no result whatever. Actually the best we can hope for may be that the banks simply do not use it.

This is not going to be limited to our long established reputable banks. The second is the possibility is that certain banks—we do not know who they are—can use this, and the costs distributed or allocated, and many other costs absorbed, and shown as taxable expenses. This is wide open, and the costs to the Treasury are quite unknown. Here we have the government trying to use our national taxation as a regional development exercise. It has been done before. Perhaps there is a precedent for it with the Cape Breton Development Corporation. I am not hung up on it if it works and if it is effective, but we have no proof whatever that this is going to be effective or that it is anything but another boondoggle.

• 1620

Miss Carney, who was then the Minister responsible—she may still be—announced IBCs in Vancouver rather a long time ago as part of her regional development plan. Presumably somebody did some economic impact studies.

[Traduction]

c'est une position que nous respectons et que toutes les personnes ici présentes approuveraient et voudraient appuyer.

Montréal et Vancouver ont un taux de chômage élevé. Je suis convaincue que tous ceux qui sont ici seraient favorables à des mesures prises dans le cadre des programmes d'expansion économique régionale ou d'aide à l'exportation, ou à toute autre mesure qui les aideraient à stimuler leur économie et à profiter de leur position géographique très stratégique, mais ce n'est pas le cas de cette présente mesure.

Nous venons d'avoir un Livre blanc sur la fiscalité que ce Comité a étudié nuit et jour pendant de nombreux mois. On nous a dit que l'élargissement de l'assiette, qui allait se traduire par une certaine diminution des impôts, serait réalisé grâce à l'élimination ou à la réduction de certaines exemptions. Nous avons ici encore une autre mesure pour laquelle nous ne disposons d'aucune donnée sur les coûts et d'aucune prévision. C'est l'inconnu; tout sera fonction de la demande, et nous n'avons aucune idée de ce à quoi nous nous engageons, alors que cela aura des répercussions pour les banques et que celles-ci n'ont rien demandé.

Il y a une véritable contradiction entre cette mesure et la réforme fiscale dont nous nous sommes occupés. Entre autres inconnues, nous ne disposons toujours pas de la solide analyse coûts-avantages que nous réclamons au ministère des Finances depuis un an que la question est devant nous; nous ne savons toujours pas si cette mesure sera utilisée. Il est tout à fait possible qu'elle ne le soit pas. Il est tout à fait possible que les banques n'en tiennent aucun compte et qu'elles continuent à traiter leurs affaires en fonction des forces du marché, alors que ce gouvernement a dressé région contre région et député contre député sans aucune raison ni résultat valable. En fait, tout ce que nous pouvons espérer, c'est que les banques ne s'en servent pas.

Cela ne se réduira pas à nos banques à la réputation établie de longue date. Il se peut également que certaines banques... nous ne savons pas lesquelles... exploitent cette mesure et que les coûts soient répartis et absorbés, et apparaissent comme des dépenses déductibles. C'est donc l'inconnu, et on n'a vraiment aucune idée des coûts que cela représente pour le Trésor. Ce que fait le gouvernement, c'est d'essayer d'utiliser notre régime fiscal national comme instrument de développement régional. Cela s'est déjà fait. La Société de développement du Cap Breton constitue peut-être un précédent à cet égard. Je n'y suis pas absolument opposée, si la mesure est efficace, mais rien ne prouve qu'elle le sera et qu'il s'agisse d'autre chose que d'une autre opération de bricolage.

Madame Carney, qui était la ministre responsable à l'époque—elle l'est peut-être encore—avait annoncé la création d'un CBI à Vancouver, il y a un certain temps de cela, dans le cadre de son plan de développement

[Text]

We have never seen a thing here. We are being asked to pass this on faith.

Somebody mentioned this morning that this could be called the bankers' relief act, but in fairness to the banks—I say it for the third time—they did not request it.

On the question of job creation, the banks say perhaps 25 jobs; the Finance department says perhaps 11. In Wall Street one person who was asked by our committee how many jobs their IBCs have created, said perhaps one or two. In our report the Finance committee said it was modest.

Then we get into costs. When he was before this committee, Mr. Dodge began with no cost, then perhaps some cost, then certainly not more \$100,000. In New York State the figure given was a suspected figure because they had not done a full audit, but they were suspecting up to \$200 million leakage.

I do not want to go on too long, but I want to repeat three essential points, all in less than one minute. Firstly, I would support it if I could see any benefit to Vancouver and Montreal. I cannot. Secondly, I would support it if it had a cap, if there were any sensible assessment and if I were sure it would not run out of control. I cannot.

Thirdly, the government has mishandled this badly. I regret that it has been introduced as a regional economic development measure and I regret the way it has been handled, the assumption being if you are from Toronto you are opposed to this because it is being set in Montreal or Vancouver. That is wrong. It is very wrong to treat a taxation bill in that way because, as Members of Parliament, there are certain values I think we all care about. One of them is giving the taxpayer value for his or her dollar. This bill does not do it; it does not even have any measurements to keep a handle on it.

For all those reasons I am voting against clause 10.

Clause 10 agreed to on division.

The Vice-Chairman: We will now revert to the schedule we had been on when we came back.

Clause 16 agreed to.

On clause 17

The Vice-Chairman: I am advised by the clerk that the amendment has been ruled out of order because it goes

[Translation]

régional. J'imagine que quelqu'un a dû faire des études d'impact économique, mais nous n'en avons jamais vu la couleur. On nous demande de donner aveuglément notre accord.

Quelqu'un a dit, ce matin, que cela pourrait s'appeler la Loi d'aide aux banquiers, mais pour être juste à leur égard—ça fait la troisième fois que je le dis, ce ne sont pas eux qui l'ont demandée.

Quant aux créations d'emplois, les banques ont dit que cela permettrait peut-être d'en créer 25; le ministère des Finances a dit, peut-être 11. Une personne de Wall Street à qui notre comité avait demandé combien d'emplois avaient été créés grâce à leurs CBI, a répondu qu'il y en avait peut-être eu un ou deux. Dans notre rapport, le comité des Finances a déclaré que le chiffre était modeste.

Venons-en maintenant aux coûts. Lorsqu'il a comparu devant ce comité, M. Dodge a commencé par dire que les coûts seraient nuls, puis qu'il y en aurait mais qu'ils ne dépasseraient certainement pas 100,000\$. Le chiffre donné dans l'État de New-York était sans doute une supposition puisqu'il n'y avait pas eu de vérification complète, mais on pensait qu'ils étaient de l'ordre de 200 millions de dollars.

Je ne voudrais pas trop épiloguer, mais je tiens à répéter trois points essentiels, le tout en moins d'une minute. Premièrement, je serais favorable à cette mesure si elle me paraissait présenter le moindre avantage pour Vancouver et Montréal, ce qui n'est pas le cas. Deuxièmement, j'y serais favorable si il y avait un plafond, s'il y avait eu une évaluation raisonnable et si j'étais certaine qu'il n'y aurait pas d'emballement; ce n'est pas le cas non plus.

Troisièmement, le gouvernement a très mal manœuvré. Je regrette qu'on n'en ait fait une mesure de développement économique régional, et je regrette la manière dont la question a été présentée, et le fait que l'on parte du principe que si vous êtes Torontois vous y êtes hostile parce que c'est à Montréal ou à Vancouver qu'on va créer un CBI. Ce n'est pas ainsi qu'il faut procéder. Il est tout à fait inacceptable de traiter ainsi un projet de loi sur l'impôt car, en tant que députés, nous sommes tous attachés, je crois, à certaines valeurs. L'une d'entre elles est de veiller à ce que le contribuable en ait pour son argent, ce que ne fait pas ce projet de loi; il ne prévoit même pas de moyens de mesurer les choses afin de les contrôler.

C'est pour toutes ces raisons que je vote contre l'article 10.

L'article 10 est adopté à la majorité.

Le vice-président: Revenons maintenant au point où nous étions restés.

L'article 16 est adopté.

Article 17

Le vice-président: Le greffier m'informe que l'amendement a été déclaré irrecevable parce qu'il touche

[Texte]

into the principal act. The Minister proposes to introduce it a later stage.

Clause 17 agreed to.

• 1625

On clause 18

The Vice-Chairman: For clause 18 we have an amendment.

Mr. White: Mr. Chairman, this motion would amend the new successor rules which are included in Bill C-64. The amendments being proposed in the motion are very technical. They basically clarify some definitions that are used in the new rules, and correct some cross references in the new rules.

Mr. Minaker: Mr. Chairman, as you know, I think most of us as members received a letter—

The Vice-Chairman: Mr. Minaker, I think we could address the amendment the government is proposing. That is a separate amendment regarding flow-through shares.

Mr. Farber: These are minor technical amendments to the provisions in that clause.

Amendment agreed to.

The Vice-Chairman: Now we go to the amendment by Mr. Minaker.

Mr. Minaker: Mr. Chairman, my understanding is that the department has come forward with an amendment to cover what was requested dealing with Canada Development Corporation. I think it even goes wider than that. I think Mr. Blenkarn raised the question with regard to how widespread would it be if the proposed amendment as suggested by Mr. Weyman was applied. I wonder if you could answer the question.

Mr. Farber: I would like to make a couple of comments. First, the proposed amendment I was given yesterday—I guess if you want a safe proposal by Mr. Weyman, he is not a member of this committee so I suppose some member of this committee would have to propose that amendment—I do not believe it achieves the intended result to begin with. We have, however, looked at it since receipt of the amendment. We understand what the proposition is and how to draft the particular words which I would be happy to give this committee in a moment.

However, it strikes me, Mr. Chairman, that you may want to consider whether or not the proposed amendment is out of order. The proposed amendment deals with some flow-through share provisions. The amendment in Bill C-64 deals with the successor rules. This in fact goes beyond the policy inherent in the successor rules that are being amended in this bill. While from a strict policy perspective I would say we do not have any particular

[Traduction]

à la loi principale. Le ministre a l'intention de le proposer à une date ultérieure.

L'article 17 est adopté.

Article 18

Le vice-président: Nous avons un amendement à l'article 18.

M. White: Monsieur le président, cette motion modifierait les nouveaux règlements concernant les corporations remplaçantes qui sont inclus dans le projet de loi C-64. Les amendements proposés dans cette motion sont extrêmement techniques. Essentiellement, ils précisent un certain nombre de définitions utilisées dans les nouveaux règlements, et corrigent certains renvois à d'autres paragraphes dans ceux-ci.

M. Minaker: Monsieur le président, comme vous le savez, je crois que la plupart des membres de ce Comité ont reçu une lettre. . .

Le vice-président: Monsieur Minaker, je crois que nous pourrions nous occuper de l'amendement proposé par le gouvernement. Il s'agit-là d'un amendement distinct concernant les actions accréditives.

M. Farber: Ce sont des amendements techniques mineurs aux dispositions contenues dans cet article.

L'amendement est adopté.

Le vice-président: Passons maintenant à l'amendement de M. Minaker.

M. Minaker: Monsieur le président, je crois comprendre que le ministère a présenté un amendement qui couvre ce qui avait été demandé au sujet de la Corporation de développement du Canada. Je crois qu'il va même plus loin que cela. M. Blenkarn a posé la question de savoir quel serait le champ d'application de l'amendement proposé par M. Weyman s'il était appliqué. Pourriez-vous répondre à cette question?

M. Farber: J'aimerais faire une ou deux remarques préalables. Prenons tout d'abord l'amendement proposé qu'on m'a communiqué hier. . . Étant donné que M. Weyman n'est pas membre de ce Comité, si vous voulez une proposition solide, je suppose qu'il faudra qu'un des membres propose cet amendement. . . D'emblée, je dirais qu'il ne permet pas d'obtenir le résultat visé. Nous l'avons cependant examiné depuis que nous l'avons reçu. Nous comprenons l'essence de la proposition et nous savons comment le coucher dans les termes appropriés, ce que je serais heureux de faire pour ce Comité dans un instant.

Peut-être voudrez-vous cependant, monsieur le président, déterminer si cet amendement est recevable ou non. Il a trait à certaines dispositions concernant les actions accréditives alors que l'amendement du projet de loi C-64 concerne les règlements au sujet des corporations remplaçantes. Nous sortons donc là du cadre de la politique inhérente à ces règlements qui sont modifiés dans ce projet de loi. Bien qu'au strict plan des politiques

[Text]

difficulties with what is intended, I put the question to the Chair as to whether or not this committee would want to deal with an issue that is really extraneous to this bill.

Mr. McCrossan: As I understand it, it is not extraneous to the bill in the sense that it is this bill which creates the particular problem that is trying to be resolved by this amendment.

Up until now the companies have been able to renounce their flow-through rights up to parents. Parent holding companies have been able to further renounce them, and they have been able to issue on a share exchange basis. Companies have been able to have issue shares and then exchange shares up to the parent, and that basis has worked for the Canada Development Corporation. It is Bill C-64 which blocks that route which was available up until that time.

Mr. Farber: I do not believe this bill does that at all. Let me just give you some background as to what is intended by the amendment to which the honourable gentlemen are referring. CDC would like to issue shares in itself as flow-through shares. The law already provides for its subsidiaries, to the extent that they are principal business corporations, to issue flow-through shares.

• 1630

What this amendment purports to allow is for the CDC to issue shares in itself. This bill does not stop that. It really has nothing to do with that. This bill dealing with the successor rules really deals with third and fourth successions and not with flow-through share provisions.

I repeat, in policy terms I do not have a lot of difficulty with the notion of a holding company that is a corporation where all or substantially all of the assets are shares of the capital stock of related companies which are PBCs, principal business corporations.

The only point I am raising, Mr. Chairman, is whether or not you want to consider this as being beyond the scope of this bill.

The Vice-Chairman: I do not know that as your chairman I would want to rule on the question of whether this adds to the scope of the bill. We have had advice to that effect. If it goes beyond the scope of the bill, it sounds like it is not a permitted action on the part of the committee. Yet conversations which I had indicate there is a concern amongst holding companies whose only interest is to invest through their wholly owned subsidiaries in the mining exploration field, the oil and gas field, that they would be compromised by the regulations as they are coming into effect in this Ways and Means Motion. They ask only that by this amendment there be a recognition of the simple right and role of a holding company having no other interest, but that

[Translation]

nous n'ayons pas d'objection particulière à l'objectif poursuivi, je pose la question suivante au président. Ce Comité désire-t-il examiner la question qui n'a en fait rien à voir avec le projet de loi.

M. McCrossan: Selon moi, ce n'est pas vrai, car c'est ce projet de loi qui crée le problème que cet amendement vise à résoudre.

Jusqu'à présent, les sociétés ont pu transférer leurs droits accreditifs à leur société-mère. Les sociétés de portefeuille mères ont pu s'en défaire, et elles ont pu émettre des actions en échange. Les sociétés ont donc pu émettre des actions et les céder dans des échanges avec la société-mère, et c'est sur cette base qu'a fonctionné la Corporation de développement du Canada. C'est le projet de loi C-64 qui crée un obstacle là où il n'y en avait pas auparavant.

M. Farber: Je ne suis pas du tout d'accord. Permettez-moi de vous expliquer le contexte de l'amendement auquel ces messieurs font allusion et de vous en indiquer l'objectif. La CDC aimerait émettre elle-même des actions sous forme d'actions accreditives. La loi prévoit déjà que les filiales, dans la mesure où il s'agit de corporations exploitant une entreprise principale, puissent émettre des actions de type accreditif.

Ce que vise cet amendement est de permettre à la CDC d'émettre elle-même des actions. Ce projet de loi ne s'y oppose pas, car il n'a, en fait, rien à voir avec la question. Ce projet de loi portant sur les règlements concernant les corporations remplaçantes, traite en fait des troisième et quatrième remplacements et non de dispositions concernant des actions accreditives.

Je le répète, sur le plan de la politique, je n'ai guère d'objection à ce qu'une société de portefeuille qui est une corporation dont la totalité ou l'essentiel des actifs sont constitués par des parts du capital-actions de sociétés liées qui sont des CEEP, c'est-à-dire des corporations exploitant une entreprise principale.

La seule question que je soulève, monsieur le président, est de savoir si vous tenez à considérer que cela sort du cadre de ce projet de loi.

Le vice-président: À titre de président, je ne suis pas certain de vouloir décider de cette question. On nous a déjà conseillé à ce sujet. Si cela sort du cadre du projet de loi, il semble bien qu'il ne s'agisse pas d'une action autorisée de la part du Comité. Pourtant, les conversations que j'ai eues révèlent une inquiétude chez les sociétés de portefeuille dont le seul intérêt est d'investir par l'intermédiaire de leurs filiales à 100 p. 100 dans le secteur de l'exploration minière, celui du gaz et du pétrole. Celles-ci craignent en effet d'être compromises par les règlements qui découleraient de cette motion de voies et moyens. Elles demandent simplement que cet amendement reconnaisse le droit et le rôle propres à une société de portefeuille, qui est de ne pas avoir d'autre

[Texte]

wholly owned subsidiaries would be able to share their risks with flow-through share advantages as do others investing in exploration of this kind.

Mr. Farber: Mr. Chairman, to the extent there was that restriction, and I acknowledge there is that restriction, it was there prior to Bill C-64. Bill C-64 did not do anything to relieve that restriction. That is my only point.

Mr. McCrossan: My understanding was that these issues have been done this year prior to this bill and that as of now they cannot be done anymore.

Mr. Farber: Mr. Chairman, I am not addressing that question. Whether these issues were done on the marketplace or not, they were done in contravention of the law at that point.

I am saying I have no difficulty in policy terms with the idea. However, that restriction, or the issue that was done, was not pursuant to anything in Bill C-64. What is being proposed here is an amendment to Bill C-64 to explicitly allow the flow through to the parent company of a number of related companies which are PBCs, principal business corporations. In that context it is not an unreasonable amendment. I am only raising the point, and asking this committee to consider whether it would like to do that here because it really has no reference to C-64, in my view.

Mr. McCrossan: Mr. Chairman, I understand the legal niceties. The thing that struck me from the testimony is that the Finance department in effect is saying they have no policy or principle objection to this and that if it was not fixed up here presumably it would be fixed up someplace in the future if they have no policy or principle objection. So my inclination in that case is to go ahead and put it in.

The Vice-Chairman: It can always be corrected at some later stage if the Minister chooses.

Mr. McCrossan: If somebody indicates there is a policy objection to it at a later date, I guess it can be fixed up.

Mr. Farber: The only point I would make, Mr. Chairman, is there that were four other amendments very similar to this, which related to other sections of the act we had opened up, and which were called out of order.

Mr. McCrossan: Called out of order by whom, sir?

Mr. Farber: The clerk indicated to us that we were opening up sections of the act. These sections were merely consequential changes picking up cross-references, which were ruled out of order. I would almost suggest we throw them all back in if this one is allowed to stand and deal

[Traduction]

intérêt, mais de permettre aux filiales à 100 p. 100 de partager leurs risques grâce aux avantages des actions accréditives comme le font d'autres investisseurs dans ce genre d'exploration.

M. Farber: Monsieur le président, dans la mesure où il y avait cette restriction, et j'en reconnais l'existence, elle est antérieure au projet de loi C-64. Ce projet de loi n'a rien fait pour l'éliminer. C'est la seule remarque que je tiens à faire.

M. McCrossan: Si je comprends bien, ces émissions d'actions ont eu lieu cette année avant la présentation de ce projet de loi, et ne seront plus possibles à partir de maintenant.

M. Farber: Monsieur le président, ce n'est pas de cela que je parle. Qu'il y ait des émissions d'actions sur le marché ou non, elles contrevenaient à la loi telle qu'elle existait alors.

Je répète que, sur le plan des politiques, je n'ai pas d'objection. Cependant, cette restriction, où l'émission d'actions qui a eu lieu, ne découle pas du projet de loi C-64. Ce qui est proposé ici est un amendement au projet de loi C-64 de manière à ce que celui-ci autorise explicitement le transfert à la société-mère par un certain nombre de sociétés liées qui sont des CEEP, c'est-à-dire des corporations exploitant une entreprise principale. Dans ce contexte, l'amendement n'est pas déraisonnable. Je me contente de soulever la question, et je demande à ce Comité de décider s'il désire faire quelque chose dans ce domaine, car, à mon avis, cela n'a vraiment rien à voir avec le projet de loi C-64.

M. McCrossan: Monsieur le président, je comprends fort bien les subtilités juridiques. Ce qui m'a frappé dans ce témoignage, c'est que, dans la pratique, le ministère des Finances nous dit qu'il n'a aucune objection sur la politique ou le principe et que, si la question n'était pas réglée à notre niveau, elle le serait ailleurs, plus tard, en l'absence d'objections de politiques ou de principe. Je serais donc personnellement favorable à ce qu'on aille de l'avant.

Le vice-président: C'est quelque chose qui peut toujours se corriger par la suite si le ministre le désire.

M. McCrossan: Si quelqu'un indique par la suite que cela va à l'encontre d'une politique, cela peut en effet toujours s'arranger.

M. Farber: La seule remarque que je voudrais faire, monsieur le président, est qu'il y a quatre autres amendements très semblables à celui-ci, qui sont liés à d'autres articles de la loi que nous examinons, et qui ont été jugés irrecevables.

M. McCrossan: Jugés irrecevables par qui, monsieur?

M. Farber: Le greffier nous a dit que nous étions en train de nous attaquer à des articles de la loi. Il s'agissait simplement de changements corrélatifs s'appuyant sur des rappels et qui ont été jugés irrecevables. Si cette motion est jugée recevable, je serais tenté de proposer qu'on les

[Text]

with them all at the same time, rather than introduce new motions at third reading stage.

Mr. McCrossan: I think the committee might well be sympathetic to that. That might be a reasonable compromise.

• 1635

The Vice-Chairman: As your chairman, I try to maintain the standards the committee has maintained. If we are dealing here with something that does go beyond the scope of our legislative committee role, then it is certain that the Minister can add this to the policy side of this bill when it is in third-reading debate. Is this not right?

Some hon. members: No.

The Vice-Chairman: At report stage then. Excuse me, I am learning.

Miss Nicholson: Mr. Chairman, if you rule the amendment as going beyond the scope of the bill for amendment in committee, then it must be introduced at report stage. I cannot see that it goes beyond the scope of the bill or that it is likely to introduce costs beyond the royal—

The Vice-Chairman: If I sense that my committee supports the view that the item is not beyond our terms of reference, then let us have your will. First of all, can I ask that it be presented as an amendment? Would Mr. Minaker or Mr. McCrossan introduce the subject?

Mr. Minaker: What are we putting forward? We have something drafted, I think.

Mr. Farber: I do not think what is before you is an amendment I personally would be comfortable with.

Mr. McCrossan: Do you have an alternative amendment?

Mr. Farber: I have some words that at least make it understandable and readable and maybe restrains what might otherwise be the case. I would amend clause 18 of Bill C-64 by adding thereto, immediately after subclause (8) thereof, the following subclause: Subsection 66.(15) of the said Act is further amended by... adding thereto... the following post-amble:

or all or substantially all of the assets of which are shares of the capital stock of one or more other corporations related to the corporation otherwise than by reason of a right described in paragraph 251.(5)(b) whose principal business is described in subparagraphs (i) to (vii).

Mr. McCrossan: The two principal things you have introduced there is to introduce the idea that the corporations must be related corporations on which there is a 51% test. The second thing you have introduced is this reference to paragraph 251.(5)(b).

[Translation]

reprenne toutes et qu'on les traite en même temps, plutôt que de présenter de nouvelles motions en troisième lecture.

M. McCrossan: Je crois que le Comité pourrait être favorable à cette suggestion. Ce pourrait être un compromis raisonnable.

Le vice-président: À titre de président, j'essaie de maintenir les normes auxquelles tient ce comité. S'il s'agit ici de quelque chose qui sort du cadre de notre rôle législatif, il est certain que le ministre peut l'ajouter au politique lorsque le projet de loi sera en troisième lecture. Est-ce bien cela?

Des voix: Non.

Le vice-président: Alors, au stade du rapport. Excusez-moi, j'apprends.

Mme Nicholson: Monsieur le président, si vous décidez que l'amendement sort du cadre des amendements qui peuvent être apportés au projet de loi en comité, il doit être présenté au stade du rapport. À mon avis, il ne sort pas de ce cadre et il est peu probable qu'il crée des coûts dépassant...

Le vice-président: Si mon comité est d'avis que cet article ne sort pas du cadre de notre mandat, faisons comme vous le désirez. Premièrement, puis-je demander qu'il soit présenté comme amendement? M. Minaker ou M. McCrossan voudrait-il bien le faire?

M. Minaker: Que présentons-nous exactement? Il y a quelque chose de rédigé, je crois.

M. Farber: Je ne crois pas que ce que vous avez devant vous soit un amendement que j'approuverais personnellement.

M. McCrossan: En avez-vous un autre à proposer?

M. Farber: J'aurais quelques mots à proposer qui auraient au moins le mérite de le rendre compréhensible et lisible et j'aurais également quelques restrictions à proposer. Je modifierais l'article 18 du projet de loi C-64 par l'insertion du paragraphe suivant après le paragraphe (8): le paragraphe 66.(15) de la même loi est modifié par... adjonction de la conclusion suivante:

ou dont la totalité ou la quasi totalité de l'actif consiste dans des actions du capital-actions d'une ou plusieurs corporations liées à la corporation autrement qu'en raison d'un droit décrit à l'alinéa 251.(5)b dont l'entreprise principale est décrite au sous-alinéa (i) à (vii).

M. McCrossan: Les deux principaux points que vous avez introduits sont, premièrement, l'idée que les corporations doivent être des corporations liées selon le critère des 51 p. 100, et la seconde, c'est la référence à l'alinéa 251.(5)b.

[Texte]

I understand different options. It deals simply with stock options. It would be perfectly acceptable to me.

Amendment agreed to.

Clause 18 as amended agreed to.

Mr. Farber: Are we also carrying the other four clauses that were removed?

The Vice-Chairman: No. I have not made any ruling on any other four clauses.

An hon. member: Are they in the same section?

Mr. Farber: No, they are not in the same section, but they were consequential amendments to clauses that have already been considered and that were opening up new sections.

The Vice-Chairman: Unless any member of the committee would like to register that wish, no, the Chair does not recognize it as a requirement from this committee. We have had some give from Finance. I think we should look at their consequential amendments if it tidies things up. The Minister apparently plans to bring in the out-of-order one for clause 17 at the report stage.

• 1640

Mr. McCrossan: Let us get rid of it now if we can. Is that the only one that has been considered?

The Vice-Chairman: There are 4 altogether, one that we have passed, 17, and 22 and 26 that are still to come. We can take them up when the come.

I need to have unanimous consent because we are reversing the rules here.

Some ho. members: Agreed.

On clause 17

Mr. McCrossan: Is this the one amending line 45 and adding a new paragraph 17.(1)?

The Vice-Chairman: I have to advise you that because this subsection proposed to be changed is not in the bill, it is beyond the scope of our legislative committee review. We have authority to open and deal with it with unanimous consent again. But we are breaking the rules of the game as we go.

Mr. McCrossan: Everybody is the master of his own fate.

Miss Nicholson: I would just like a further explanation of the amendment.

Mr. White: Subsection 60.(j)(1) of the Income Tax Act allows a retiring allowance to be transferred to an RRSP on a tax deferred basis and the amendment to that paragraph will allow funds out of a retirement compensation arrangement also to be transferred to an RRSP on the same basis.

Amendment agreed to.

Clause 17 as amended agreed to.

[Traduction]

Cela traite simplement d'options sur titre. Je trouve cela parfaitement acceptable.

L'amendement est adopté.

L'article 18 modifiée est adopté.

M. Farber: Allons-nous également adopter les quatre autres amendements qui ont été enlevés?

Le vice-président: Non. Je n'ai pas pris de décision là-dessus.

Une voix: Portent-ils sur le même article?

M. Farber: Non, mais il s'agissait d'amendements corrélatifs aux articles qui ont déjà été traités et qui remaniaient de nouveaux articles.

Le vice-président: A moins qu'un membre du comité ne tienne à faire inscrire ce vœux, non, le fauteuil ne considère pas qu'il s'agit d'une exigence pour ce comité. Les finances ont donné un peu de mou. Je crois que nous devrions examiner leurs amendements corrélatifs, si cela permet de mettre un peu d'ordre. Le ministre a apparemment l'intention de présenter au stade du rapport l'amendement à l'article 17 déclaré irrecevable.

M. McCrossan: Régions la questions dès maintenant si nous le pouvons. Est-ce le seul à avoir été considéré?

Le vice-président: Il y en a quatre au total, un qui a été adopté, le 17, le 22 et le 26 que nous attendons encore. Nous pouvons alors nous en occuper.

J'ai besoin de votre unanimité car nous sommes ici en train de renverser les règlements.

Des voix: D'accord.

Article 17

M. McCrossan: S'agit-il de celui qui modifie la ligne 46 et ajoute un nouvel alinéa 17.(1)?

Le vice-président: Je dois vous informer que comme ce paragraphe dont on propose la modification ne figure pas au projet de loi, il sort du cadre de notre examen. Nous avons pouvoir de le traiter et de le modifier si nous avons encore une fois unanimité, mais nous enfreignons ici les règles du jeu.

M. McCrossan: Chacun est maître de son destin.

Mme Nicholson: J'aimerais que l'on m'explique un peu plus cet amendement.

M. White: L'alinéa 60.j)(1) de la Loi de l'impôt sur le revenu permet de différer l'impôt en cas de transfert d'une allocation de retraite à un REER et la modification à cet alinéa étend l'application de cette disposition aux transferts de fonds de conventions de retraite à un REER.

L'amendement est adopté.

L'article 17 est adopté tel qu'amendé.

[Text]

Clauses 19 to 21 inclusive agreed to.

On clause 22

The Vice-Chairman: We have an amendment proposed for clause 22. I am advised this requires unanimous consent because it goes beyond the scope of the committee. Do I have unanimous consent to consider the amendment on clause 22?

Miss Nicholson: I would like an explanation.

Mr. White: Mr. Chairman, this one is in fact very technical. It merely changes the way that some cross-references pertaining to the resource successor rules. . .

Mr. Farber: Strictly technical amendments to the successor court rules correcting the cross-references.

Miss Nicholson: Technical amendments must have a purpose.

• 1645

Mr. Farber: The purpose, Mr. Chairman, is to pick up oversights in the cross-references dealing with other subsections of the act and the income tax application rules that were missed in the original drafting.

The Vice-Chairman: This is just a way of getting it into the system.

Clause 22 as amended agreed to.

On clause 23

The Vice-Chairman: Mr. Farber, can we ask for an outline of what was needed and why this particular amendment was presented?

Mr. White: Mr. Chairman, the amendment to clause 23 again relates to the new successor corporation rules for resource expenses. Again, these are rather "tentacle" amendments. Basically, they improve the transitional measures relating to the introduction of the new successor rules. They correct a number of cross-references required by the introduction of the new rules, and they carry forward to the new successor rules certain features of the existing successor rules which were missed in the earlier preparation of the Bill.

Amendment agreed to.

Clause 23 as amended agreed to.

On Clause 24

The Vice-Chairman: Shall clause 24 as amended carry? I need a member of the committee, I think, to process this.

Monsieur Hudon, nous aiderez-vous, encore? C'est proposé par M. Hudon.

Mr. Ernewein: Mr. Chairman, this is an amendment to the rule which applies in situations where property is transferred from one person to a corporation which, for the purpose of obtaining that corporation's losses or the like. . . The amendment simply restricts the application of

[Translation]

Les articles 19 à 21 sont adoptés.

Article 22

Le vice-président: Un amendement est proposé pour l'article 22. On me dit que cela exige le consentement unanime des députés car cela sort encore une fois du cadre du mandat de ce comité. Approuvez-vous à l'unanimité l'examen de l'amendement à l'article 22?

Mme Nicholson: Je voudrais une explication.

M. White: Monsieur le président, il s'agit en fait ici d'une question très technique. Il s'agit simplement de modifier la manière dont certains renvois relatifs au règlement concernant les corporations remplaçantes. . .

M. Farber: Ce sont des amendements strictement techniques au règlement corrigeant ces renvois.

Mme Nicholson: Les amendements techniques doivent bien avoir un but.

M. Farber: Le but de cet amendement, monsieur le président, est de réparer les oublis en ce qui concerne les renvois à d'autres paragraphes de la loi ainsi que certaines règles d'application de l'impôt sur le revenu.

Le vice-président: C'est une façon de les inclure dans la loi.

L'article 22 modifié est adopté.

Article 23

Le vice-président: Monsieur Farber, pouvons-nous avoir une brève explication des besoins et de la raison d'être de l'amendement à cet article?

M. White: Monsieur le président, l'amendement à l'article 23 a trait une fois de plus aux nouvelles règles visant les frais relatifs à des ressources des corporations remplaçantes. Il s'agit d'un amendement «tentaculaire», si je puis dire. De façon générale, il améliore les mesures de transition en vue de l'introduction des nouvelles règles touchant les corporations remplaçantes. Il y a un certain nombre de renvois qui doivent être corrigés. Il y a également des éléments des règles existantes qui sont repris et qui avaient été oubliés dans la première version du projet de loi.

L'amendement est adopté.

L'article 23 modifié est adopté.

Article 24

Le vice-président: L'article 24 modifié est-il adopté? J'aurais besoin de l'aide d'un membre du Comité pour cet article.

Can I call upon you once again, Mr. Hudon? Yes? So it is moved by Mr. Hudon.

M. Ernewein: Monsieur le président, il s'agit ici d'un amendement à la règle qui s'applique lorsque des biens sont transférés d'une personne à une corporation en vue de profiter de déductions fiscales ou d'autres avantages. . . L'amendement limite l'application de cette règle au cas

[Texte]

the rule where the property in question is disposed of within three years of its original transfer, so taxpayers will not have to concern themselves about the application of the rule if the property which is originally transferred to the corporation is held by the corporation for longer than three years.

Miss Nicholson: I would just like to ask the same question again. If this was considered desirable, why was it not in the Bill in the first place? Why the need for an amendment now?

Mr. Ernewein: Well, the situation was that the general rule was considered desirable. It was determined through some submissions, some comments, that we could still maintain the objectives of the rule without imposing, if you will, some reasonable restriction on it that it would only apply if a subsequent disposition of a particular property occurred in three years.

Amendment agreed to on division.

Clause 24 as amended agreed to.

On clause 25

The Vice-Chairman: Clause 25, there is a technical amendment from the government. May we have a mover.

Merci, Monsieur Hudon.

This is the Saskatchewan Pension plan question. Is there an explanation?

Mr. White: This is very similar to the amendment we had earlier with regard to the income-splitting rules in the context of the prescribed provincial pension plan. Section 74.(1) of the act is another income attribution rule and the amendment being proposed is of the same nature as the one we dealt with earlier.

• 1650

Amendment agreed to.

Clause 25 as amended agreed to.

On clause 26

The Vice-Chairman: As we have in the past two or three instances, we need unanimous consent to consider this because it is beyond the scope of review today.

Some hon. members: Agreed.

The Vice-Chairman: We need a mover for the amendment to clause 26.

Mrs. Collins: I so move.

Mr. White: It is another income attribution rule and it is a similar amendment in terms of prescribed provincial pension plans to provide an exception to the rules.

Miss Nicholson: What is the nature and purpose of the exception?

[Traduction]

où la disposition ultérieure est effectuée dans les trois ans de la date à laquelle les biens ont été transférés. Les contribuables n'ont donc pas à s'inquiéter de l'application de la règle si les biens en question, c'est-à-dire qui ont été transférés à la corporation, sont détenus par la corporation pendant une période de plus de trois ans.

Mme Nicholson: Je pose la même question que tout à l'heure. Si cette disposition est nécessaire, pourquoi n'a-t-elle pas été insérée dans la première version du projet de loi? Pourquoi faut-il procéder par amendement maintenant?

M. Ernewein: Il avait été prévu que la règle générale s'appliquerait. Après avoir entendu un certain nombre d'instances et d'observations, nous nous sommes rendu compte que nous pouvions atteindre les objectifs visés par la règle même avec une limite raisonnable de trois ans pour ce qui est de la détention des biens.

L'amendement est adopté à la majorité des voix.

L'article 24 modifié est adopté.

Article 25

Le vice-président: Il y a un amendement technique du gouvernement à l'article 25. Quelqu'un désire-t-il le proposer?

Thank you, Mr. Hudon.

C'est quelque chose qui a à voir avec le régime de pensions de la Saskatchewan. Y a-t-il une explication?

M. White: C'est un amendement au sujet du partage des revenus semblable à celui que nous avons adopté plus tôt pour le régime provincial visé. L'article 74.(1) de la loi est un autre article qui a trait à la distribution du revenu et l'amendement qui y est proposé ressemble lui aussi au premier.

L'amendement est adopté.

L'article 25 modifié est adopté.

Article 26

Le vice-président: De la même façon que précédemment, nous devons avoir le consentement unanime pour examiner cet amendement parce qu'il va au-delà de ce qu'il nous est permis d'examiner normalement.

Des voix: D'accord.

Le vice-président: Quelqu'un doit proposer l'amendement à l'article 26.

Mme Collins: Je le propose.

M. White: Il s'agit d'une autre règle d'attribution du revenu et l'amendement prévoit une exception semblable à celle qui existe ailleurs dans le cadre de régimes provinciaux de pensions.

Mme Nicholson: Quelle est la nature et le but de l'exception?

[Text]

Mr. White: Where there has been a splitting of benefits, for example under the Saskatchewan pension plan, the spousal attribution rules will not apply on that split. It means the property belongs to the spouse rather than to the original owner. That is the effect.

Mr. Farber: No, that is not the effect. The effect is that the income will be taxed in the hands of the recipient.

Mr. McCrossan: Do you mean rather than the original owner?

Mr. Farber: Yes, exactly.

Mr. White: It is consistent with the earlier ones we discussed.

Mr. Farber: You are correct. We tend to be a little more technical because this does not deal with transfer to property.

Mr. McCrossan: If a person gives his or her spouse property, the income from that property still belongs to them. On marriage split-ups, you are saying it really belongs to the other party.

Mr. Farber: That is correct.

Amendment agreed to.

Clause 26 as amended agreed to.

Clauses 27 and 28 agreed to.

On clause 29

The Chairman: There is an amendment for clause 29. Can we have an explanation from the department?

Mr. White: Mr. Chairman, this amendment relates to the new successor rules for resource expenses. The amendment merely carries forward a feature of an exception to the successor rules which applied under the old successor rules. The amendment carries over the same feature to the new successor rules.

Amendment agreed to.

Clause 29 as amended agreed to.

On clause 30

The Vice-Chairman: We have an amendment.

Mr. White: Mr. Chairman, this is exactly the same as the last one. The last dealt with amalgamations. This is for windings-up for the same type of reason.

Miss Nicholson: Could it be expanded a little more in terms of the effect?

Mr. White: Mr. Chairman, generally where all or substantially all the resource property of one corporation is acquired by another corporation, the successor rules for resource expenses apply. Normally an election is required. No election is required when the property is transferred in the course of a winding up, but when the winding up is of a subsidiary at least 90% owned by its parent corporation, the existing successor rules provided an

[Translation]

M. White: Lorsqu'il y a eu partage des prestations, par exemple, dans le cadre du régime de pensions de la Saskatchewan, les autres règles d'attribution du revenu au conjoint ne s'appliquent pas. Ce qui veut dire que les biens appartiennent au conjoint plutôt qu'au premier propriétaire. C'est l'effet de l'amendement.

M. Farber: Non, ce n'est pas l'effet de l'amendement. L'amendement prévoit que le revenu sera imposé aux mains du bénéficiaire.

M. McCrossan: Par opposition au premier propriétaire.

M. Farber: En effet.

M. White: C'est un amendement qui s'inspire des précédents.

M. Farber: C'est juste. Nous sommes un peu plus techniques parce que nous savons que cet amendement ne s'applique pas au transfert des biens.

M. McCrossan: Si une personne cède des biens à son conjoint, les revenus provenant de ces biens continuent de lui appartenir. À la rupture du mariage, cependant, le revenu est considéré comme aux mains du conjoint.

M. Farber: Oui.

L'amendement est adopté.

L'article 26 modifié est adopté.

Les articles 27 et 28 sont adoptés.

Article 29

Le président: Y a-t-il une explication du ministère pour ce qui est de l'amendement à l'article 29?

M. White: Cet amendement, une fois de plus, a trait à une nouvelle règle visant les frais relatifs aux ressources des corporations remplaçantes. L'amendement reprend simplement une exception qui existait en vertu des anciennes règles.

L'amendement est adopté.

L'article 29 modifié est adopté.

Article 30

Le vice-président: Il y a un amendement.

M. White: C'est exactement le même que le précédent. Le précédent avait trait aux fusions. Celui-ci porte sur les liquidations. La raison est la même dans le cas des liquidations.

Mme Nicholson: Pouvons-nous avoir une meilleure idée de ses répercussions?

M. White: Monsieur le président, de façon générale, lorsque tous les biens ou presque tous les biens sous forme de ressources d'une corporation sont acquis par une autre corporation, les règles visant les frais relatifs aux ressources de la corporation remplaçante s'appliquent. Il faut habituellement qu'on l'ait choisi. Ce n'est pas le cas lorsqu'il y a transfert des biens dans le cadre d'une liquidation. Cependant, lorsqu'il s'agissait de

[Texte]

exception to the successor rules. Instead of the successor rules applying, the parent corporation was treated as being just a continuation of the subsidiary wound up.

• 1655

What this amendment does is merely carry forward the same features of this rule that applied under the old successor rules into the new successor rules.

Amendment agreed to.

Clause 30 as amended agreed to.

The Vice-Chairman: We have 10 in a row without any change, between clause 31 and clause 39. If you would like, I will call them one at a time.

Shall clause 31 carry?

Miss Nicholson: No, I have a question on clause 31. Clause 31 essentially cross-references into a number of clauses. I would like an explanation of the result of this and also of the reasons for applying this after February 17, 1987.

Mr. White: Mr. Chairman, it is a consequential amendment on a budget provision relating to share for share exchanges. The budget tightened the rules applying to share for share exchanges to ensure they were not used in a way to unnecessarily avoid or defer taxes. Part of the legislation to implement that budget measure required changes to the paid up capital of shares. The budget date was February 18, 1987, and there was a press release announcement issued beforehand saying that tightening tax changes might be effective after midnight on February 17.

Clauses 31 and 32 agreed to.

On clause 33

Miss Nicholson: Clause 33 is again related to spousal transfers. Could we have a fuller explanation of the intent and effects of that?

Mr. White: Clause 33 relates to one of the provisions already dealt with by the committee. There is a new Anti-Avoidance Rule in section 69 of the act which was announced by the Minister of Finance on January 15 of this year. That rule applies where property with an accrued gain is transferred to unrelated persons under a roll-over provision of the act so that the accrued gain can be passed on to the unrelated person. The gain would then be sheltered on a subsequent disposition by that unrelated person by losses or undeducted expense pools, for example, which the unrelated person had.

Since in some cases it is not clear under the Income Tax Act where the two parties are related when one of those parties is a partnership, we had to have some kind

[Traduction]

la liquidation d'une filiale appartenant à 90 p. 100 au moins à une société mère, il y avait une exception dans le cadre des règles visant la corporation remplaçante. La corporation mère était traitée comme étant la continuation de la filiale liquidée.

Cet amendement reprend la disposition en question dans les nouvelles règles s'appliquant aux corporations remplaçantes.

L'amendement est adopté.

L'article 30 modifié est adopté.

Le vice-président: Nous avons maintenant une série de 10 articles sans modification proposée, c'est-à-dire les articles 31 à 39. Je puis les mettre en délibération un par un, si vous voulez.

L'article 31 est-il adopté?

Mme Nicholson: Non, j'ai une question au sujet de l'article 31. Cet article essentiellement renvoie à un certain nombre d'autres. J'aimerais savoir quelles sont ses répercussions et pourquoi il s'applique après le 17 février 1987.

M. White: Monsieur le président, il s'agit d'une disposition découlant du budget relativement aux échanges d'actions. Le budget raffermit les règles s'appliquant aux échanges d'actions pour qu'ils ne deviennent pas des moyens d'éviter ou de reporter inutilement le paiement de l'impôt. La partie I de la loi visant à faire appliquer cette mesure budgétaire nécessitait des modifications au niveau du capital action versé. La date du budget était le 18 février 1987 et il y avait eu auparavant un communiqué de presse indiquant que les règles seraient raffermies à compter de minuit le 17 février.

Les articles 31 et 32 sont adoptés.

L'article 33

Mme Nicholson: L'article 33 a également trait aux transferts entre conjoints. Pouvons-nous avoir plus d'explications sur son objet et sur ses répercussions possibles?

M. White: L'article 33 a trait à des dispositions qui ont déjà été examinées par le comité. Il s'agit de la règle anti-évitement qui se trouve à l'article 69 de la loi qui a été annoncée par le ministre des finances le 15 janvier dernier. Cette règle s'applique lorsque des biens comportant un gain accumulé sont transférés à des personnes sans lien de parenté en vertu des dispositions de transfert de la loi. Le gain accumulé est passé également aux personnes sans lien de parenté. Il peut par ailleurs être protégé lors d'une disposition subséquente s'il y a des pertes ou des frais non réclamés qui reviennent aux personnes sans liens de parenté.

Comme la Loi de l'impôt sur le revenu n'était pas tellement précise lorsqu'une des parties en cause était une société de personnes, il fallait une règle spéciale qui

[Text]

of special rule to deal with a case where the property was transferred to a partnership, or by a partnership to somebody else. What was adopted was the notion that the test in the new anti-avoidance rule would apply depending on whether or not the... For example, in the case where a person is transferring to a partnership, the rule would apply where neither the vendor nor a person related to the vendor was a majority interest partner in the partnership.

The term "majority interest partner" is already defined in the Income Tax Act in subsection 97.(3.1) but was only defined therein for the purposes of another subsection of section 97. What clause 33 of Bill C-64 does is amend that definition so it can be applied for the purposes of any provision in the act.

• 1700

Clauses 33 and 34 agreed to.

On Clause 35

Miss Nicholson: In subparagraph 35.(1)(b)(ii) "any person related to the vendor", could I have a fuller explanation of how relationship will be defined?

Mr. Ernewein: Subsection 251(2) defines relationship and persons who are deemed to be related.

Clause 35 agreed to.

On clause 36

Miss Nicholson: Could I have a fuller explanation of clause 36, since it affects retirement compensation arrangements and trusts?

Mr. White: Mr. Chairman, I believe this rule simply parallels a rule which already applies under the Income Tax Act for employee benefit plans, and the rules being introduced correspond or parallel the rules that apply for employee benefit plans where there has been a distribution of the trust property of the beneficiary.

Miss Nicholson: This is a section that could leave the taxpayer at the mercy of an incompetent trustee. The taxpayer pays the price if the trust disposes of property at the low fair market value. The beneficiary may be left paying tax on a benefit that he in fact did not receive. Is that right?

Mr. White: If the trustee did transfer the property out at less than fair market value the beneficiary would be receiving a benefit, or rather should be taxed on that difference in the same way as he would have been if the trustee had paid out a benefit equal to that amount.

The Vice-Chairman: He would receive the benefit.

Clause 36 agreed to.

On Clause 37

Miss Nicholson: Clause 37 is again dealing with trusts. Could I have a fuller explanation of what you expect to

[Translation]

s'applique aux transferts de biens dans ce genre de situation, c'est-à-dire pour les transferts à une société de personnes ou d'une société de personnes. Il a été décidé que la condition appliquée dans le cas de la nouvelle règle anti-évitement serait... Par exemple, dans le cas d'un transfert à une société de personnes, la règle s'applique lorsque ni le vendeur ni la personne ayant des liens de parenté avec le vendeur ne détient un intérêt majoritaire dans la société de personnes.

L'expression «associé détenant une participation majoritaire» était déjà définie dans la Loi de l'impôt sur le revenu au paragraphe 97.(3.1) mais cette définition n'était applicable qu'aux fins d'un autre paragraphe de l'article 97. L'article 33 du projet de loi C-64 fait en sorte que cette définition puisse s'appliquer aux fins de quelque disposition de la loi que ce soit.

Les articles 33 et 34 sont adoptés.

Article 35

Mme Nicholson: L'alinéa 35.(1)(b)(ii) indique «une personne liée à celui-ci» en parlant du vendeur. Puis-je avoir plus d'explications à ce sujet?

M. Ernewein: Le paragraphe 251(2) définit les liens entre personnes.

L'article 35 est adopté.

Article 36

Mme Nicholson: Puis-je avoir des précisions au sujet de l'article 36 qui a trait aux fiducies prévues par des conventions de retraite?

M. White: La règle proposée ici est déjà prévue dans la Loi de l'impôt sur le revenu pour les régimes de prestations aux employés. Elle correspond tout à fait à celle qui existe pour les régimes de prestations aux employés lorsqu'il y a des montants provenant d'une fiducie de convention de retraite.

Mme Nicholson: C'est une disposition qui pourrait laisser le contribuable à la merci d'un mandataire incompétent. C'est le contribuable qui écope si le mandataire dispose des biens à une juste valeur marchande trop basse. Le bénéficiaire peut se retrouver avec un montant d'impôt dû pour un avantage qu'il n'a pas reçu. C'est possible?

M. White: Si le mandataire a transféré les biens à une valeur moindre que la juste valeur marchande, le bénéficiaire a reçu un avantage et doit être imposé pour la différence au même titre que si l'avantage avait été plus grand.

Le vice-président: Il a reçu l'avantage.

L'article 36 est adopté.

Article 37

Mme Nicholson: L'article 37 a également trait aux fiducies. Puis-je avoir plus d'explications au sujet de la

[Texte]

achieve with the definition in subclause 37.(2) of the income interest of a taxpayer.

The Vice-Chairman: We are only adding the underlined words there, are we not—

Miss Nicholson: Yes, but I would like to know the purpose—

The Vice-Chairman: “Referred to in subparagraph (c)(i)” — what were the goals?

Mr. White: Mr. Chairman, I believe this provision is one which relates to an announcement by the Minister of Finance in early February of this year which was also carried over into the budget measures. It ensures basically that certain rules with regard to allowing the deduction of a cost of an income interest and a trust are not abused.

• 1705

Clause 37 agreed to.

On clause 38

Miss Nicholson: I have some questions about the employee stock options. This was discussed in committee report 78 on page 30. And there were some questions asked there to which the answers were less than conclusive, and I wonder if we might do any better today.

The explanation given in committee was that the attempt here is to recognize that there are two ways in which an individual can generate a taxable benefit from an employee stock option. One is to exercise the option; the other is to sell the option to somebody else. And the amendment, we were told, was intended to ensure the deduction is available in those cases where a taxpayer has chosen to dispose of the option, rather than exercise it and buy the shares, the deduction currently being half the gain.

A question was raised that it is being considered as a capital gain, and yet it is contrary, really, to capital gain. Why would a stock option, which is a form of employee emolument, be treated as a capital gain? Why is that not income which would be taxed 100% as income? The answer really was less than clear, so I would like to see if we could get a better answer today, or a different answer.

Mr. Farber: Mr. Chairman, if I understand the question correctly, these are stock options, and not remuneration per se. It is in the context of exercising an option to acquire a share of the capital stock of the corporation. Therefore, upon disposition of that share I believe the holder of that share ought to be treated in exactly the same manner as any other person who acquires a share.

Miss Nicholson: So employee stock options, then, are not to be treated as employee benefits, but as an independent investment. Is that the proposal?

[Traduction]

définition de participation au revenu qui se trouve au paragraphe 37.(2)?

Le vice-président: Nous ne faisons qu'ajouter les mots soulignés, n'est-ce pas. . .

Mme Nicholson: Je voudrais simplement savoir pourquoi. . .

Le vice-président: «Une fiducie visée au sous-alinéa c)(i)». Pourquoi?

M. White: Je pense qu'il s'agit d'une disposition qui fait suite à une annonce du ministre des Finances au début de février cette année qui figure dans les mesures budgétaires. Elle a simplement pour but de faire en sorte que les frais rattachés aux participations au revenu et aux fiducies ne feront pas l'objet d'abus.

L'article 37 est adopté.

Article 38

Mme Nicholson: J'ai quelques questions au sujet des régimes d'options sur titre pour les employés. Il en a été question dans le rapport 78 du Comité, à la page 30. Les questions posées à ce moment-là n'ont pas reçu de réponse satisfaisante; je ne sais pas si elles ne pourraient pas être meilleures aujourd'hui.

On a indiqué que tout ce qu'on a essayé de faire ici c'était de prévoir deux façons de tirer des avantages fiscaux des régimes d'options sur titre pour les employés. Le premier moyen consistait à exercer l'option; le deuxième, à vendre l'option à quelqu'un d'autre. L'amendement, nous expliquait-on, était destiné à permettre la déduction lorsque le contribuable avait choisi de vendre son option plutôt que de l'exercer lui-même. La déduction actuellement porte sur la moitié du gain.

Quelqu'un a fait valoir que le gain était considéré comme un gain en capital alors qu'en réalité ce n'en était pas un. Pourquoi une option sur titre, dans le cadre d'un programme de rémunération d'employés, devrait-elle être considérée comme un gain en capital? Pourquoi ne serait-elle pas considérée comme un revenu et imposée à 100 p. 100? La réponse à cette question a été loin d'être claire précédemment. Je me demande si elle est toujours la même aujourd'hui.

M. Farber: Si je comprends bien, monsieur le président, il s'agit d'options sur titre et non pas d'une rémunération comme telle. Les intéressés peuvent acheter des actions d'une corporation en exerçant leur option. Au moment de la disposition de l'action, le détenteur doit être traité exactement de la même façon que les autres détenteurs d'actions.

Mme Nicholson: Donc, les régimes d'options sur titre pour les employés ne sont pas considérés comme faisant partie de la rémunération des employés; ils représentent un investissement indépendant. C'est bien ce que vous dites?

[Text]

Mr. Farber: Any gain on those shares should be treated like anybody else's gain. They should not be treated any differently.

• 1710

The Vice-Chairman: The gain certainly is not part of salary or revenue.

Mr. Farber: That is right.

Miss Nicholson: But it is treated like a capital gain in terms of the level of taxation.

The Vice-Chairman: The increase is.

Miss Nicholson: But it is not a capital gain.

The Vice-Chairman: Yes, it could be sold before there is any gain, although you might not exercise your option if there was no gain involved.

Miss Nicholson: It is rather complex, is it not? Has anybody ever given any serious attempt to handling this in a more simple way?

The Vice-Chairman: I guess in our efforts to try to complete our agenda I am going to have to ask that the questions be crisp and the answers be crisp.

Mr. Farber: It is done this way, Mr. Chairman, because this really provides equivalent treatment. When you dispose of a share and there is a gain, then the gain is taxed. When you exercise the option you do not necessarily have a gain at that point in time so there ought not to be any taxable treatment.

I do not think there is any magic to this provision other than to provide equitable treatment.

Miss Nicholson: I am not convinced.

The Vice-Chairman: Let us see if we can satisfy our committee member at a later stage with more information about that particular clause. But in the meantime, in terms of its legality, shall clause 38 carry?

Clause 38 agreed to on division.

Clause 39 agreed to.

On clause 40

Mr. Ernewein: There are two amendments, and they are quite technical. The first clarifies that the taxation year referred to in paragraph 40.(111)(4)(e) is the taxation year immediately preceding a change of control of a corporation. That is what the subsection is concerned with.

The other amendment corrects a timing deficiency inasmuch as a capital gain or loss arising on this change of control may or may not have been accounted for in a capital dividend account which is a special account provided to private corporations. This attempts to correct that timing problem.

Amendment agreed to.

[Translation]

M. Farber: Le gain réalisé sur ces actions devrait être traité de la même façon que le gain réalisé sur les autres actions. Il n'y a pas de raison de les traiter différemment.

Le vice-président: Le gain n'entre certainement pas dans le salaire ou dans le revenu.

M. Farber: C'est juste.

Mme Nicholson: Aux fins de l'impôt, il est traité comme un gain en capital.

Le vice-président: Le gain seulement.

Mme Nicholson: Ce n'est pas un gain en capital.

Le vice-président: Oui, l'option peut être également vendue avant qu'il y ait gain; l'option n'est peut-être pas exercée s'il n'y a pas de gain.

Mme Nicholson: C'est une question assez complexe, n'est-ce pas? N'y-t-il pas une façon plus simple de l'aborder?

Le vice-président: Dans le but de faire avancer nos travaux, je vais devoir demander que les questions et les réponses soient brèves et qu'elles aillent droit au but.

M. Farber: Monsieur le président, le traitement est le même que dans les autres cas semblables. Lorsque vous réalisez un gain en disposant d'une action, votre gain est imposable. Lorsque vous exercez une option, vous ne réalisez pas nécessairement tout de suite un gain; à ce moment-là, il ne doit rien y avoir d'imposable.

Je ne vois rien de mystérieux dans ces dispositions; elles ont tout simplement pour but de traiter les intéressés de façon équitable.

Mme Nicholson: Je ne suis pas convaincu.

Le vice-président: Voyons plus tard si nous ne pouvons pas donner satisfaction à notre collègue au sujet de cette question particulière. En attendant, officiellement, l'article 38 est-il adopté?

L'article 38 modifié est adopté à la majorité des voix.

L'article 39 est adopté.

Article 40

M. Ernewein: Il y a deux amendements à cet article et ils sont très techniques. Le premier précise que l'année d'imposition mentionnait l'alinéa 40.(111)(4)(e) et l'année d'imposition qui précède immédiatement le changement de contrôle de la corporation. C'est l'objet du paragraphe de façon générale.

L'autre amendement corrige un problème de synchronisation en ce sens que le gain ou la perte en capital découlant du changement de contrôle peut avoir été ou ne pas avoir été porté au compte de dividendes en capital qui est un compte spécial établi par les corporations privées. Donc, il s'agit de savoir quand un certain nombre de conditions doivent être réputées applicables.

L'amendement est adopté.

[Texte]

Clause 40 as amended agreed to.

On clause 41

Mr. Farber: The amendment, Mr. Chairman, merely corrects a cross-reference in the French version of the Bill.

Amendment agreed to.

Clause 41 as amended agreed to.

On Clause 42

Mr. Ernewein: This amendment to clause 42 simply provides that the depreciable property to which it refers—it adds a reference of a prescribed class, which has some meaning in the act and depreciable property of a prescribed class is that for which capital costs allowance is allowed under the regulations. . .

Amendment agreed to.

Clause 42 as amended agreed to.

Clauses 43 and 44 agreed to.

On clause 45

The Vice-Chairman: Clause 45 has an amendment. The purpose of the motion is to correct a grammatical error.

Amendment agreed to.

Clause 45 as amended agreed to

• 1715

Clauses 46 to 48 inclusive agreed to.

On clause 49

The Vice-Chairman: We turn to clause 49, where there is an amendment and again a need for explanation.

Mr. White: Bill C-64 provides for deductibility of interest, [*Inaudible—Editor*] a deposit insurance corporation to fund its operations as a deposit insurance corporation. This motion adds another one of those operations of the deposit insurance corporation for which interest will be deductible if it is borrowed to fund that operation.

The other half of the motion provides a new exception from the rules which provide that the investments of a deposit insurance corporation must meet certain eligibility requirements. The exception is only for the share of a capital stock of a member institution that is in financial difficulty.

Amendment agreed to.

Clause 49 as amended agreed to.

On clause 50

Mr. White: Mr. Chairman, there is an amendment to section 149 of the Income Tax Act which requires a corporation to recognize any accrued gains or losses before it becomes tax exempt.

[Traduction]

L'article 40 modifié est adopté.

Article 41

M. Farber: Cet amendement, monsieur le président, corrige un renvoi dans la version française du projet de loi.

L'amendement est adopté.

L'article 41 modifié est adopté.

Article 42

M. Ernewein: Cet amendement à l'article 42 ajoute à «biens amortissables» la mention «d'une catégorie prescrite»; c'est important dans la Loi parce qu'un bien amortissable d'une catégorie prescrite est un bien pour lequel une déduction pour amortissement est permise en vertu des règlements. . .

L'amendement est adopté.

L'article 42 modifié est adopté.

Les articles 43 et 44 sont adoptés.

Article 45

Le vice-président: Il y a un amendement à l'article 45. Il s'agit de corriger une erreur grammaticale.

L'amendement est adopté.

L'article 45 tel que modifié est adopté.

Les articles 46 à 48 sont adoptés.

Article 49

Le vice-président: Nous passons à l'article 49, qui fait l'objet d'un amendement qui requiert une explication.

M. White: Le projet de loi C-64 permet de déduire [*Inaudible—Éditeur*] qu'une corporation d'assurance-dépôts paie pour financer ses opérations. Cette motion ajoute une autre de ces opérations d'une corporation d'assurance-dépôts pour laquelle l'intérêt sera déductible si les fonds sont empruntés pour financer l'opération.

L'autre moitié de la motion introduit une nouvelle exemption des règles voulant que les placements d'une société d'assurance-dépôts répondent à certains critères. L'exemption ne vise que la partie des actions du capital-actions d'une institution membre en difficultés financières.

L'amendement est adopté.

L'article 49, tel qu'amendé, est adopté.

Article 50

M. White: Monsieur le président, il y a une modification à l'article 149 de la Loi de l'impôt sur le revenu qui exige que les gains ou les pertes accumulés d'une corporation soient reconnus avant l'exonération fiscale.

[Text]

The motion being proposed here merely provides more grandfathering for that change to accommodate transactions in progress at the time the change was announced.

Amendment agreed to.

Clause 50 as amended carried.

Clauses 51 to 53 inclusive agreed to.

On clause 54

Mr. Ernewein: This amendment adds or provides for offset interest, as it were. If you make a deficient payment or installment on your tax, this allows you to make up that interest liability by pre-paying or paying in excess of your later liability, so it all offsets.

This amendment is essentially intended to add to its ambit both interest owing on the net tax payable on your return and interest on installments. The addition is with respect to interest on instalments.

Amendment agreed to.

Clause 50 as amended agreed to.

Clauses 55 and 56 agreed to.

On clause 57

Mr. White: Mr. Chairman, these amendments are amendments to the special tax being introduced as an anti-avoidance provision to discourage the distribution of corporation surplus to shareholders in a way that allows what should be treated as dividends to in effect be treated as tax-free capital gains under the lifetime capital gains exemption.

The amendments being proposed here simply remove an unnecessary reference in one of the provisions. They narrow the purpose test that determines whether the special tax applies, and they generally clarify the circumstances in which the tax applies.

Mr. McCrossan: Does this clause affect the capital dividend account, in effect?

Mr. White: I do not believe so, Mr. Chairman.

Mr. McCrossan: Okay. There was a clause in here that affected the capital dividend account distributions from life insurance policies. I thought this was the one.

• 1720

Amendment agreed to.

Clause 57 as amended agreed to.

On clause 58

Mr. Minaker: When we reviewed this earlier I made notes and I have a question mark beside clause 58 in the notes about Quebec Venture Corporation. I am trying to remember why we raised the question.

[Translation]

L'amendement proposé ici élargit la disposition d'antériorité, l'appliquant aux opérations en cours au moment où le changement a été annoncé.

L'amendement est adopté.

L'article 50, tel qu'amendé, est adopté.

Les articles 51 à 53 sont adoptés.

Article 54

M. Ernewein: Cet amendement introduit une compensation au titre des intérêts, en quelque sorte. Si on est en retard dans ses paiements d'impôt provisionnels, ceci permet de compenser l'intérêt dû de ce fait en versant par la suite des acomptes anticipés ou excédentaires, en guise de compensation.

Cet amendement ajoute donc à cette disposition l'intérêt dû sur les acomptes provisionnels à celui dû sur l'impôt payable en fin d'année.

L'amendement est adopté.

L'article 50, tel qu'amendé, est adopté.

Les articles 55 et 56 sont adoptés.

Article 57

M. White: Monsieur le président, il s'agit là de modifications à la taxe spéciale introduite en tant que mesure anti-évitement pour décourager la distribution de dividendes excédentaires aux actionnaires d'une société de manière à ce que ces dividendes bénéficient du régime des gains en capital exonérés en vertu de l'exemption viagère.

Les amendements proposés ici suppriment simplement une mention inutile dans l'une des dispositions. Ils restreignent le critère de l'objet qui détermine le champ d'application de la taxe spéciale et clarifient de manière générale les circonstances dans lesquelles celles-ci s'appliquent.

M. McCrossan: Est-ce que cet article affecte le compte des dividendes en capital?

M. White: Je ne le crois pas, monsieur le président.

M. McCrossan: Bien. Il y a là-dedans une clause qui concerne les dividendes en capital distribués au titre des polices d'assurance-vie. Je pensais que c'était celle-ci.

L'amendement est adopté.

L'article 57 tel qu'amendé est adopté.

Article 58

M. Minaker: Lorsque j'ai examiné cet article tout à l'heure j'ai pris quelques notes et j'ai placé un point d'interrogation dans la marge des notes concernant la Quebec Venture Corporation, au sujet de l'article 58. J'essaie de me souvenir pourquoi on a soulevé cette question.

[Texte]

The Vice-Chairman: Can the department find any reference in their notes to the issue raised?

Mr. Minaker: I do not know if one of our colleagues from Quebec raised the question on whether it applied to—

Mr. Farber: If my memory serves me correctly, Mr. Chairman, this amendment deals with an exemption from Part IV tax, the dividends received by a venture capital corporation. It ensures that these dividends are received from other venture capital corporations rather than having dividends from a host of different companies being used as an investment vehicle. I believe it was the question raised at that time. I do not know if that addresses your concern, but it is what it does and it does not do much more than that.

Clauses 58 to 61 inclusive agreed to.

On clause 62

The Vice-Chairman: We have an amendment on clause 62.

Mr. White: Clause 62 relates to retirement compensation arrangements. The amendments proposed are designed to ensure that a retirement compensation arrangement funded through a life insurance policy is treated on the same basis as a retirement compensation funded otherwise. It also improves the grandfathering for arrangements funded through a life insurance policy as well as improving the grandfathering for any arrangements established on or after October 9, 1986, the date these measures were announced, pursuant to agreements entered into on or before that date.

The amendment also clarifies that benefits under retirement compensation arrangement may be either vested or contingent. It allows foreign pension plans to apply to employees transferred to Canada for up to five years rather than three years as formerly proposed without the retirement compensation rules being applied to those plans.

Amendment agreed to.

Clause 62 as amended agreed to.

Clauses 63 to 65 inclusive agreed to.

On clause 66

The Chairman: We have an amendment on clause 66.

Mr. Bert Waslander (Committee Research Director): We have received representations that the clause should be deleted and, failing that, that the clause should be proclaimed separately from the law at some future date, the idea being that the clause would be reconsidered after the review of the Bankruptcy Act. This clause provides for the government to engage in garnishment action on income directed to a secured creditor.

We have approached the Canadian Insolvency Association and the Canadian Bankers' Association on

[Traduction]

Le vice-président: Le ministère trouve-t-il mention de cette question dans ses notes?

M. Minaker: Je ne sais plus si c'est l'un de nos collègues du Québec qui a soulevé la question ou bien si...

M. Farber: Si je me souviens bien, monsieur le président, cette modification intéresse l'exemption de l'impôt de la Partie IV des dividendes perçus par une corporation à capital de risque. Elle fait en sorte que ces dividendes proviennent d'autres sociétés de capital à risque plutôt que de voir les dividendes de toute une série de compagnies différentes servir d'instruments de placement. Je crois que c'était la question qui avait été soulevée à l'époque. Je ne sais pas si cela répond à votre question, mais voilà l'effet de cette modification, et c'est à peu près tout.

Les articles 58 à 61 sont adoptés.

Article 62

Le vice-président: Nous avons un amendement à l'article 62.

M. White: L'article 62 traite de l'impôt sur les conventions de retraite. Les amendements proposés font en sorte qu'une convention de retraite financée par une police d'assurance-vie soit traitée de la même manière qu'une convention financée autrement. Elle améliore également les conventions financées précédemment par une politique d'assurance-vie ainsi que les conventions signées avant le 9 octobre 1986, date où ces mesures ont été annoncées, conformément à des ententes conclues ce jour ou auparavant.

L'amendement précise également que les prestations versées au titre des conventions puissent être capitalisées ou versées. Et l'un porte de trois ans à cinq ans la durée pendant laquelle des régimes de retraite étrangers sont applicables à des employés mutés au Canada avant que les règles régissant les conventions de retraite puissent être appliquées à ces régimes.

L'amendement est adopté.

L'article 62 tel qu'amendé est adopté.

Les articles 63 à 65 sont adoptés.

Article 66

Le président: Nous avons un amendement à l'article 66.

M. Bert Waslander (directeur de la recherche du Comité): On nous a demandé soit de supprimer cette clause, soit, à défaut, de la promulguer séparément du restant du projet de loi, à une date ultérieure, afin qu'elle puisse être reconsidérée après la refonte de la Loi sur les faillites. Elle permet, en effet, au gouvernement de saisir des revenus versés à un créancier protégé.

Nous avons contacté le Conseil canadien d'insolvabilité et l'Association des banquiers canadiens à ce sujet et tous

[Text]

this clause and both have come back to us with the representations to which I just referred. It is a matter which ought not to be considered in isolation from the Bankruptcy Act. To them the measure itself is unacceptable.

• 1725

Miss Nicholson: There is a precedent because in 1985 the Finance committee of the day refused to take action similar to this and defeated the clause, deferring it to be dealt with under bankruptcy legislation which is more appropriate.

The Vice-Chairman: So if the committee would like to agree with that precedent and also with the recommendation made and explained, it would mean you would vote against this particular clause.

Mr. Farber: Mr. Chairman, I wonder if we can address that before the committee decides to vote on it.

The Vice-Chairman: Yes, I was just explaining it.

Mr. Farber: I will give some opening comments and I will ask my colleague to address some of the legal precedents underlying this.

This is not a clause that is relevant only in bankruptcy situations, but in many situations other than bankruptcy. We are particularly dealing with source deductions that are put in trust for the employee. The employees get credit for income tax, UIC and CPP immediately and therefore these funds should not get caught up with all other funds of a particular company under any kind of proceeding and should be remitted to the government because in fact they are government funds. They have nothing to do with the operation of a company. Therefore dealing with this kind of a provision under the bankruptcy provisions does not deal with this particular problem in the manner that is actually laid out here.

Mr. McCrossan: Let me just ask you if you have seen that particular suggestion, the proposed amendment, rather than deleting the clause.

Mr. Farber: I have seen the proposed amendment and I will ask my colleague to speak to it. My understanding is that would leave it open until the date of proclamation which may well be three or four months into the future. We are talking about uncollected source deductions that are reported annually by Revenue Canada somewhat in the order of \$140 million.

Mr. Marc Cuerrier (Tax Policy Officer, Tax Policy and Legislation Branch, Department of Finance): The average of the last three years of uncollected source deduction has been \$355 million and \$334 million. It is expected that this measure—the super priority measure which this is a sister provision to—in Revenue Canada's estimation would enable them to collect as much as \$149 million more annually out of those uncollectibles.

It is a very important revenue collection measure that the Minister of Revenue has been insisting upon for quite

[Translation]

deux nous ont fait la demande que je viens de dire. Ils considèrent que cette question ne devrait pas être tranchée séparément de la Loi sur les faillites. Cette mesure leur est inacceptable.

Mme Nicholson: Il y a un précédent parce qu'en 1985, le comité des Finances a refusé une mesure analogue à celle-ci et l'a rejetée, la renvoyant pour être intégrée dans un projet de loi sur les faillites où elle paraissait mieux à sa place.

Le vice-président: Si le Comité veut donc accepter ce précédent et la recommandation faite, cela signifierait qu'il faudrait voter contre cet article du projet de loi.

M. Farber: Monsieur le président, pourrions-nous traiter de ce point avant que le Comité passe au vote?

Le vice-président: Oui, je ne faisais qu'expliquer la situation.

M. Farber: Je voudrais d'abord faire quelques remarques liminaires et demander ensuite à mes collègues de parler des précédents juridiques.

Cette disposition ne concerne pas que les cas de faillite, loin de là. Il s'agit des retenues à la source qui sont placées en fiducie pour l'employé. Celui-ci bénéficie immédiatement des crédits aux fins de l'impôt sur le revenu, de l'assurance-chômage et du régime de retraite, si bien que ces fonds ne doivent pas être mélangés avec tous les autres d'une société en particulier et doivent être versés à l'État car c'est à lui qu'ils appartiennent. Ils n'ont absolument rien à voir avec l'exploitation de l'entreprise. Par conséquent, le fait d'inclure ce genre de dispositions dans un texte de loi sur les faillites ne résout pas ce problème particulier de la manière qui est prévue ici.

M. McCrossan: Avez-vous vu cet amendement, celui qui propose de modifier le texte et non pas de le supprimer purement et simplement?

M. Farber: J'ai vu l'amendement et je vais demander à mon collègue de vous en parler. Je crois savoir qu'il laisserait en suspens la date de promulgation, la retarderait peut-être ainsi de trois ou quatre mois. Nous parlons là de retenues à la source non versées à Revenu Canada, que l'on peut estimer à quelque 140 millions de dollars.

M. Marc Cuerrier (agent de politique fiscale, Direction de la politique et de la législation de l'impôt, ministère des Finances): La moyenne des trois dernières années des retenues à la source non perçues se situe entre 355 et 334 millions de dollars. Cette mesure—la disposition de priorité dont celle-ci est le pendant—permettrait au ministère du Revenu de percevoir jusqu'à 149 millions de dollars par an de ces créances.

C'est donc une mesure fiscale très importante que le ministre du Revenu réclame depuis pas mal de temps et

[Texte]

some time and that is rather crucial to the protection of the revenue base.

On that basis we believe, Mr. Chairman, that even a three or four or five month deferral of this measure might bring about some rather serious revenue implications given that this measure deals with a rather special group of people. We are talking about delinquent employers that are in default of remitting source deductions. So this is not a measure that attempts to deal with the ordinary taxpayers but rather with a special category of taxpayers who are delinquent taxpayers or absconding taxpayers. The measure is a rather extreme measure to try and control this leakage of the revenues.

The Vice-Chairman: First of all there is no vote until someone wishes to move this amendment which would be to delete or delay. So I look around amongst my colleagues, including Aideen, and ask do you want to actually move this amendment.

Miss Nicholson: I would like to have some further discussion on it because the explanation that has been given puts a different light on it. I suppose most of us have looked at subclause 66.(1) on its own and there as one reads it, it looks as though the government is taking to itself a super-priority over secured creditors in all and every situation. However, I guess the point is that subclause 66.(1) is amending section 224 of the Income Tax Act. From what we have just heard section 224 of the Income Tax Act deals with delinquent employers.

• 1730

Mr. Cuerrier: More precisely, it deals with a collection procedure that is put forward to go against those employers that have failed to remit source deductions. It is a collection measure.

Miss Nicholson: Could you possibly just give us a brief overview of section 224, because I do not have trouble with subclause 66.(1) if its scope is really limited to the kind of employers you describe. I have a lot of trouble with it if it is wider than that.

Mr. Cuerrier: Well, section 224 is known as a garnishment or third-party demand provision. It is a collection provision that enables the Department of Revenue to intercept payments going to a tax debtor or a taxpayer who himself owes money to the Crown.

Now, that provision was found to be deficient, in that there was some recent case law that a tax debtor could get around that provision if he were to transfer or assign some of his assets as part of a security arrangement with a bank or a financial institution. So because of that loophole, the government felt the need to intervene and to buttress, I guess, the collection provision in question, and this is precisely what subsection 224(1.2) does. It enables the government to intercept payments going to a

[Traduction]

qui est très importante si nous voulons protéger l'assiette fiscale.

Pour cette raison, monsieur le président, nous pensons que même trois ou quatre mois de retard auraient des conséquences graves sur les recettes fiscales, sachant que cette mesure touche une catégorie bien particulière de citoyens, à savoir les employeurs qui gardent par devers eux l'impôt déduit à la source sur les salaires de leurs employés. Ce n'est donc pas une mesure qui concerne un contribuable ordinaire mais plutôt une catégorie bien spéciale de contribuables fautifs. C'est une mesure plutôt draconienne qui tente de contrôler cette perte de recettes.

Le vice-président: Premièrement, il n'y aura pas de vote tant que quelqu'un n'aura pas proposé un amendement visant à supprimer cet article ou à retarder son entrée en vigueur. Est-ce qu'il en est parmi mes collègues, et je pense à Aideen, qui voudrait le proposer?

Mme Nicholson: Je voudrais continuer à y réfléchir car l'explication qui vient de nous être donnée jette une lumière un peu différente sur l'article. La plupart d'entre nous, je suppose, l'ont lu isolément et tiré l'impression que le gouvernement se donne à lui-même priorité sur tous les autres créanciers garantis, et ce dans toutes les circonstances. Cependant, je suppose que le paragraphe 66.(1) modifie l'article 224 de la Loi de l'impôt sur le revenu. Or, d'après ce que l'on vient de nous dire, celui-ci concerne les employeurs qui ont commis des irrégularités fiscales.

M. Cuerrier: Plus précisément, c'est une procédure de recouvrement qui vise les employeurs qui omettent de reverser les retenues opérées à la source. C'est une mesure de recouvrement.

Mme Nicholson: Pourriez-vous nous indiquer brièvement la teneur de l'article 224, car je ne vois pas de difficulté avec le paragraphe 66.(1) s'il s'applique uniquement au genre d'employeurs que vous décrivez. Par contre, s'il va plus loin, j'aurais de nombreuses objections.

M. Cuerrier: Eh bien, l'article 224 est une disposition de saisie. C'est une mesure de recouvrement qui permet au ministère du Revenu d'intercepter les versements effectués à un débiteur fiscal ou un contribuable qui doit lui-même des impôts à la Couronne.

Cette disposition comporte une lacune en ce sens que la jurisprudence récente permet au créancier de contourner la disposition en transférant ou cédant une partie de son actif, à titre de garantie de prêt, à une banque ou à un établissement financier. Donc, du fait de cette échappatoire, le gouvernement a voulu renforcer cette disposition de recouvrement et c'est précisément ce que fait ce projet d'alinéa 224(1.2). Il pourrait être permis au gouvernement d'intercepter les paiements destinés à

[Text]

secured creditor of a tax debtor, which was a neat trick to get around the original provision.

Miss Nicholson: Is section 224 a lengthy section?

Mr. Cuerrier: Section 224 has a number of subsections: 224.1 is the main garnishment provision; 224(1.1) deals with another type of garnishment. Then there are a number of rules that affect the consequence, I guess, of a garnishment and the provisions for what happens upon failure to comply with a garnishment order. It is a one-page section.

Mrs. Collins: There is on file a copy of a letter from The Canadian Bankers' Association which objects to this. I wondered if you have looked at that and if you could respond to it.

Mr. Cuerrier: We have received, in the course of dealing with subsection 224(1.2) and also the mother provision, 227(10.2), a number of representations. Obviously, the financial institutions are not too keen on these types of enhanced collection provisions for the government. The one my attention was directed to was a representation by the Canadian Construction Association.

But we have indeed, I recall, received some representations as well from the Canadian Insolvency Association and The Canadian Bankers' Association. Essentially, the common denominator in those representations has always been that they do not like the fact that government might set a priority over their types of security arrangements. And I suspect this is a reasonable position for them.

However, as a matter of tax policy, the Minister of Finance and the Minister of Revenue insist that the greater good is better served by enhancing the collection provisions of the Income Tax Act to make sure the revenue flows to the government.

Mrs. Collins: As you indicated earlier, this would include deductions for CPP and UI.

Mr. Cuerrier: Exactly.

Mrs. Collins: Which are really to the benefit of the employee.

Mr. Farber: Well, this only includes income tax, CPP and UIC.

Mr. Cuerrier: Source deductions.

Mr. Farber: They are source deductions. These are not funds that belong to the employer.

Mrs. Collins: They belong to the employee.

Mr. Farber: They are the employee's deductions, which in theory should be remitted the same day they are deducted, except that there is some time given to remit source deductions under the Income Tax Act. So these are not ordinary trade-receivables that can be assigned. But

[Translation]

un créancier garanti d'un débiteur fiscal, ce qui était un procédé retors permettant de contourner la règle d'origine.

Mme Nicholson: Est-ce que le texte de l'article 224 est très long?

M. Cuerrier: L'article 224 comporte un certain nombre de paragraphes: le paragraphe (1) est la disposition de saisie principale; l'alinéa 224(1.1) traite d'un autre type de saisie. Il y a ensuite un certain nombre de règles qui intéressent les conséquences d'une saisie et des dispositions sanctionnant le non-respect d'une ordonnance de saisie. Le texte fait à peu près une page.

Mme Collins: Nous avons dans le dossier copie d'une lettre de l'Association des banquiers canadiens qui s'oppose à cette mesure. Est-ce que vous en avez pris connaissance et pourriez-vous répondre à ces objections?

M. Cuerrier: Nous avons reçu un certain nombre d'interventions concernant le paragraphe 224(1.2) et également celui qui lui fait suite, le paragraphe 227(10.2). De toute évidence, les établissements bancaires ne sont pas ravis de voir s'accroître les moyens de recouvrement de l'État. J'ai surtout étudié l'intervention de l'Association canadienne de la construction.

Mais je me souviens effectivement que nous avons reçu également des interventions de l'Association canadienne d'insolvabilité et de l'Association des banquiers canadiens. Leur point commun, en gros, est qu'elles n'apprécient pas le fait que le gouvernement puisse avoir préséance sur les garanties qu'elles possèdent elles-mêmes. Je suppose que cela est très compréhensible.

Cependant, du point de vue de la politique fiscale, le ministre des Finances et le ministre du Revenu affirment qu'il est dans l'intérêt général de renforcer les moyens de recouvrement aux termes de la Loi de l'impôt sur le revenu afin que l'État soit assuré de toucher son dû.

Mme Collins: Ainsi que vous l'avez dit, cela engloberait les retenues au titre du régime des pensions et de l'assurance-chômage.

M. Cuerrier: Exactement.

Mme Collins: Qui bénéficient en fait à l'employé.

M. Farber: Oui, ceci se limite à l'impôt sur le revenu, aux cotisations aux Régimes des pensions du Canada et d'assurance-chômage.

M. Cuerrier: Les retenues opérées à la source.

M. Farber: Ce sont des retenues à la source. Ce n'est pas de l'argent qui appartient à l'employeur.

Mme Collins: Il appartient à l'employé.

M. Farber: Ce sont des retenues opérées sur le salaire de l'employé, qui en théorie devraient être remises le même jour, sauf que la Loi de l'impôt sur le revenu accorde à l'employeur un certain délai de grâce. Ce ne sont donc pas des effets négociables ordinaires. Mais, du

[Texte]

because of this court case my colleague was talking about, that was the mechanism to get around this.

Mrs. Collins: It is not the income tax that the corporation is owing?

• 1735

Mr. Cuerrier: No, this does not address at all the personal tax liability or a corporate tax liability. It is strictly—

Mr. McCrossan: I had another question on this. I just want to get to the example. Suppose a bank loans money to a corporation and takes as collateral for the loan security of—it does not matter—a building.

Mr. Cuerrier: This would not apply to real property. Let me continue with your example. Suppose a bank loans money and gets as collateral accounts receivable of the taxpayer. The case law I was referring to has said that if an account receivable is assigned or transferred to the bank, subsection 224.(1) does not apply because it would apply only to property that is owned by the tax debtor.

To the extent that the tax debtor assigns the property to another secured creditor, he would frustrate Revenue's collection. This is exactly what we are trying to correct. We are trying to say that notwithstanding the fact that a tax debtor might assign his property to a secured creditor, the garnishment action can still take place. The garnishment action effectively has priority over an assignment that—

The Vice-Chairman: The value of the assignment should be after tax.

Mr. Cuerrier: Exactly.

Mr. Farber: Not quite after tax; after the employees' tax—money that does not belong to the person.

Mr. Cuerrier: Yes, it is an important—

The Vice-Chairman: This is what clause 66 provides. If I do not have a mover for an amendment, then I shall ask if clause 66 shall carry.

Clause 66 agreed to.

On clause 67

Mr. White: Mr. Chairman, the amendment merely corrects a cross-reference.

Amendment agreed to.

Clause 67 as amended agreed to.

Clause 68 agreed to.

On clause 69

The Vice-Chairman: Clause 69 has an amendment. Here we are looking at some dates.

Mr. White: Mr. Chairman, this relates to retirement compensation arrangements. It deals with rights that are contingent rather than vested, to make sure those rights

[Traduction]

fait de ces jugements dont mon collègue a parlé, un mécanisme est apparu qui permettait de contourner la loi.

Mme Collins: Il ne s'agit pas de l'impôt sur le revenu que la société doit au fisc?

M. Cuerrier: Non, il ne s'agit pas du tout des montants d'impôt sur le revenu d'un particulier ou d'une société. Il s'agit strictement. . .

M. McCrossan: J'ai une autre question là-dessus. Pourriez-vous nous donner un exemple. Supposons qu'une banque accorde un prêt à une société et prenne comme garantie—peu importe—un bien immobilier.

M. Cuerrier: Ceci ne s'applique pas du tout à des biens immobiliers. Permettez-moi de poursuivre votre exemple. Supposons qu'une banque accorde un prêt et prenne comme garantie les comptes à recevoir du contribuable. La jurisprudence dont j'ai parlé dit que si un compte à recevoir est assigné ou est cédé à une banque, le paragraphe 224.(1) ne s'applique pas car il est applicable uniquement à un bien que possède le débiteur fiscal.

Dans la mesure où le débiteur fiscal attribue la propriété de ses comptes à un autre créancier garanti, il soustrait à la main du fisc. C'est exactement ce que nous essayons d'éviter. Nous disons que, même si un débiteur fiscal attribue son bien à un créancier garanti, il peut être néanmoins saisi. L'ordonnance de saisie a, dans la pratique, priorité sur une cession qui. . .

Le vice-président: La valeur du bien cédé ne peut être que celle après impôts.

M. Cuerrier: Exactement.

M. Farber: Pas tout à fait, après que l'impôt déduit sur les salaires des employés soit versé, c'est-à-dire de l'argent qui n'appartient pas à la société.

M. Cuerrier: Oui, c'est important. . .

Le vice-président: C'est ce que dit l'article 66. Je n'ai personne pour proposer d'amendements et je mets donc l'article 66 aux voix.

L'article 66 est adopté.

Article 67

M. White: Monsieur le président, cet article rectifie uniquement un renvoi.

L'amendement est adopté.

L'article 67 tel qu'amendé est adopté.

L'article 68 est adopté.

Article 69

Le vice-président: Il y a un amendement à l'article 69. C'est une question de dates.

M. White: Monsieur le président, cet amendement concerne les conventions de retraite, et notamment les droits qui sont conditionnels plutôt qu'automatiquement

[Text]

can also be covered under a retirement compensation arrangement. It also provides additional grandfathering.

Amendment agreed to.

Clause 69 as amended agreed to.

On clause 70

The Vice-Chairman: We turn to an amendment in clause 70. On the home stretch.

Mr. Ernewein: Mr. Chairman, the basic provision that is added by Bill C-64 is proposed subsection 249.(4), which deems a corporation to have ended its taxation year where control of the corporation changes. There are essentially two amendments to this provision. The first tends to clarify our intention that if a change of control occurs within seven days after a normal year-end, you will be able to extend the normal year-end to the change of control date so you do not have to make up your accounts for two years just because of that short period.

The second change is to extend the date for filing returns under the Income Tax Act caused by this deemed year-end rule to 90 days after the day on which the legislation receives Royal Assent.

Amendment agreed to.

Clause 70 as amended agreed to.

On clause 71

The Vice-Chairman: There is an amendment on clause 71. We need unanimous consent to introduce it.

Some hon. members: Agreed.

Mr. White: Mr. Chairman, one of the budget provisions in Bill C-64 changes the basis of measurements of property held by deferred income plans for the purposes of the special tax on excess foreign property holdings of deferred income plans. This change is merely consequential on it. It picks up a reference change corresponding to that change in basis.

• 1740

Amendment agreed to.

Clause 71 as amended agreed to.

Clauses 72 to 78 inclusive agreed to.

The Vice-Chairman: Shall the title carry?

Some hon. members: Agreed.

The Vice-Chairman: Shall the Bill as amended carry?

Some hon. members: Agreed to on division.

The Vice-Chairman: Shall the committee order a reprint for use at report stage?

Some hon. members: Agreed.

[Translation]

acquis et nous voulons veiller à ce que ces droits soient également couverts par la définition de «convention de retraite». En outre, l'amendement élargit quelques dispositions transitoires.

L'amendement est adopté.

L'article 69 tel qu'amendé est adopté.

Article 70

Le vice-président: Nous passons à l'amendement à l'article 70. Nous arrivons à la fin.

M. Ernewein: Monsieur le président, la disposition principale ajoutée par le projet de loi C-64 est le projet de paragraphe 249.(4), qui dit que l'année d'imposition d'une corporation est censé prendre fin à la date où la société change de main. Il y a, en gros, deux modifications à cette disposition. La première tend à préciser que si le contrôle de la corporation change de main dans les sept jours après la fin normale de l'année d'imposition, celle-ci pourra être prolongée d'autant, de façon à ne pas avoir à soumettre une comptabilité pour deux années, dont l'une ne comporterait que quelques jours.

La deuxième modification prolonge la date pour le dépôt de la déclaration d'impôt à remettre aux termes de cette règle de fin d'année d'imposition jusqu'à 90 jours après la date de sanction de la loi.

L'amendement est adopté.

L'article 70 tel qu'amendé est adopté.

Article 71

Le vice-président: Il y a un amendement à l'article 71. Nous avons besoin du consentement unanime pour recevoir l'amendement.

Des voix: D'accord.

M. White: Monsieur le président, l'une des dispositions budgétaires du projet de loi C-64 modifie les critères de calcul de la valeur de biens détenus par un régime de report de revenu aux fins de la taxe spéciale sur les biens étrangers excédentaires détenus par de tels régimes. Il s'agit-là simplement d'une modification corrélative. Il s'agit simplement de modifier une date de référence conformément à un changement apporté plus haut.

L'amendement est adopté.

L'article 71 tel qu'amendé est adopté.

Les articles 72 à 78 sont adoptés.

Le vice-président: Le titre est-il adopté?

Des voix: Adopté.

Le vice-président: Le projet de loi tel qu'amendé est-il adopté?

Des voix: Adopté, sur séparation des voix.

Le vice-président: Le comité veut-il ordonner une réimpression du projet de loi aux fins du rapport?

Des voix: D'accord.

[*Texte*]

The Vice-Chairman: Shall I report the Bill as amended?

Some hon. members: Agreed.

The Vice-Chairman: A special word of thanks to our witnesses who have been patient with us and to all of you who have made it possible.

The meeting is adjourned to the call of the Chair.

[*Traduction*]

Le vice-président: Dois-je faire rapport du projet de loi tel qu'amendé?

Des voix: D'accord.

Le vice-président: Je tiens à remercier particulièrement nos témoins qui ont fait preuve d'une grande patience, ainsi que vous tous qui avez rendu possible l'adoption de ce projet de loi.

La séance est levée jusqu'à nouvel ordre.



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WITNESSES

*From the Tax Policy and Legislation Branch of the
Department of Finance:*

Len Farber, Director, Tax Policy and Legislation;

Harold White, Legislative Counsel;
Brian J. Ernewein, Tax Policy Officer;
Marc Cuerrier, Senior Counsel, Tax Counsel Division.

TÉMOINS

*De la Direction de la politique et de la législation de
l'impôt du ministère des Finances:*

Len Farber, directeur, Politique et législation de
l'impôt;

Harold White, conseiller législatif;
Brian J. Ernewein, agent de la politique de l'impôt;
Marc Cuerrier, avocat-conseil, Direction de droit fiscal.

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HOUSE OF COMMONS

Issue No. 132

Thursday, January 21, 1988

Chairman: Don Blenkarn

CHAMBRE DES COMMUNES

Fascicule n° 132

Le jeudi 21 janvier 1988

Président: Don Blenkarn

*Minutes of Proceedings and Evidence of the
Standing Committee on*

Finance and Economic Affairs

*Procès-verbaux et témoignages du Comité
permanent des*

Finances et des affaires économiques

RESPECTING:

Pursuant to Standing Order 96(2), questions
relating to the economic outlook

CONCERNANT:

En vertu de l'article 96(2) du Règlement, questions
relatives aux perspectives économiques

WITNESS:

(See back cover)

TÉMOIN:

(Voir à l'endos)

cond Session of the Thirty-third Parliament,
86-87-88

Deuxième session de la trente-troisième législature,
1986-1987-1988

STANDING COMMITTEE ON FINANCE AND
ECONOMIC AFFAIRS

Chairman: Don Blenkarn

Vice-Chairman: Robert E.J. Layton

Members

Bill Attewell
Suzanne Blais-Grenier
Michael Cassidy
Mary Collins
Simon de Jong
Murray Dorin
Raymond Garneau
Paul McCrossan
George Minaker
Aideen Nicholson
Norman Warner

(Quorum 7)

Marie Carrière

Clerk of the Committee

COMITÉ PERMANENT DES FINANCES ET DES
AFFAIRES ÉCONOMIQUES

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(Quorum 7)

Le greffier du Comité

Marie Carrière

MINUTES OF PROCEEDINGS

THURSDAY, JANUARY 21, 1988

(201)

[Text]

The Standing Committee on Finance and Economic Affairs met at 10:07 o'clock a.m. this day, in 112-N, Centre Block, the Vice-Chairman, Robert Layton, presiding.

Members of the Committee present: Michael Cassidy, Mary Collins, Murray Dorin, Raymond Garneau, Robert Layton and Norman Warner.

Acting Member present: Steven W. Langdon for Simon de Jong.

In attendance: From the Committee's Research Staff: H. Bert Waslander, Research Director. *From the Research Branch of the Library of Parliament:* Terrence J. Thomas, Research Officer.

Witness: From the Bank of Canada: John Crow, Governor.

Pursuant to Standing Order 96(2), the Committee commenced consideration of questions relating to the economic outlook.

The witness made an opening statement and answered questions.

At 12:14 o'clock p.m., the Committee adjourned to the call of the Chair.

Marie Carrière
Clerk of the Committee

PROCÈS-VERBAL

LE JEUDI 21 JANVIER 1988

(201)

[Traduction]

Le Comité permanent des finances et des affaires économiques se réunit, aujourd'hui à 10 h 07, dans la pièce 112-N de l'Édifice du centre, sous la présidence de Robert Layton, (*vice-président*).

Membres du Comité présents: Michael Cassidy, Mary Collins, Murray Dorin, Raymond Garneau, Robert Layton et Norman Warner.

Membre suppléant présent: Steven W. Langdon remplace Simon de Jong.

Aussi présents: Du personnel de recherche du Comité: H. Bert Waslander, directeur de la recherche. *Du Service de recherche de la Bibliothèque du Parlement:* Terrence J. Thomas, attaché de recherche.

Témoin: De la Banque du Canada: John Crow, gouverneur.

Conformément aux dispositions du paragraphe 96(2) du Règlement, le Comité entreprend d'étudier les questions relatives aux perspectives économiques.

Le témoin fait une déclaration préliminaire et répond aux questions.

À 12 h 14, le Comité s'ajourne jusqu'à nouvelle convocation du président.

Le greffier du Comité
Marie Carrière

EVIDENCE

[Recorded by Electronic Apparatus]

[Texte]

Thursday, January 21, 1988

• 1008

The Vice-Chairman: Order, please.

Pursuant to Standing Order 96.(2), the committee meets today on questions relating to the economic outlook.

Our special witness for this meeting is Mr. John Crow, the Governor of the Bank of Canada.

I invite the governor to present his colleagues and his remarks, and then we will subject them to questions by members of the committee.

Mr. John Crow (Governor of the Bank of Canada): Thank you, Mr. Chairman. I regard it as a privilege to be here this morning.

My colleagues, Mr. White and Mr. Freedman, advise the governor.

• 1010

I do not have an opening statement, though I do believe that committee members did receive a copy of an address I gave on Monday in Alberta, called "The Work of Canadian Monetary Policy". To the extent that one needs an opening statement, that stands as an opening statement, Mr. Chairman.

Mr. Garneau: I wish you could explain your statement a bit, because it is not that easy to understand. Even though we know a little bit about the economy, your statement in Edmonton was a very complex one, and not easy to understand.

In fact what you are saying to Canadians is that inflation is the base of the monetary policy, and it should be, and it should remain even though the inflation being on the downturn—well my interpretation of what you said—it is still the main preoccupation of the Governor of the Bank of Canada. Is that right, or is my reading of your speech not good?

Mr. Crow: That is not a bad paraphrase of 21 pages, Mr. Garneau.

The way I would put it is that the institution that has direct responsibility for monetary policy, for monetary expansion, has also responsibility for maintaining confidence in the nation's currency. Confidence in the nation's currency comes to very much the same thing as ensuring it maintains its value. Maintaining its value means the general price level stays as stable as is possible.

Mr. Garneau: I certainly can agree with you on the long term, but when you look at the situation now, inflation seems to be under control even though the last couple of years our rate has been a little higher than the one in the United States.

TÉMOIGNAGES

[Enregistrement électronique]

[Traduction]

Le jeudi 21 janvier 1988

Le vice-président: La séance est ouverte.

Le comité se réunit aujourd'hui en vertu de l'article 96.(2) du règlement pour examiner certaines questions relatives aux perspectives économiques.

Nous sommes ravis d'accueillir M. John Crow, gouverneur de la Banque du Canada.

J'invite maintenant le gouverneur à nous présenter ses collègues et son exposé et nous passerons ensuite aux questions.

M. John Crow (gouverneur de la Banque du Canada): Merci, monsieur le président. C'est pour moi un privilège d'être des vôtres ce matin.

Mes collègues et conseillers sont M. White et M. Freedman.

Je n'ai pas préparé d'exposé comme tel mais les membres du Comité ont reçu, je crois, copie d'une allocution que j'ai prononcée lundi en Alberta et qui s'intitule *The Work of Canadian Monetary Policy*. Ce texte pourra servir d'exposé liminaire, monsieur le président.

M. Garneau: J'aimerais bien que vous nous l'expliquiez parce qu'il n'est pas du tout facile à comprendre. Même si nous nous y connaissons un peu en matière d'économie, l'allocution que vous avez prononcée à Edmonton était très complexe et pas du tout facile à comprendre.

Vous dites en fait aux Canadiens que la politique monétaire est dictée par le taux d'inflation, comme cela se doit, et—si j'ai bien interprété vos propos—l'inflation demeure la principale préoccupation du Gouverneur de la Banque du Canada même si elle est à la baisse. Est-ce exact ou ai-je mal interprété votre discours?

M. Crow: Ce n'est pas une mauvaise paraphrase des 21 pages de l'allocution, monsieur Garneau?

A mon avis, l'institution directement responsable de la politique et de l'expansion monétaires doit aussi veiller au maintien de la confiance dans la monnaie nationale. Le maintien de cette confiance équivaut au maintien de la valeur de la monnaie. Pour se faire, il faut que le niveau général des prix soit aussi stable que possible.

M. Garneau: Je suis tout à fait d'accord avec vous pour ce qui est du long terme mais, à l'heure actuelle, l'inflation semble être sous contrôle même si depuis quelques années notre taux est légèrement plus élevé que celui des États-Unis.

[Texte]

If you compare the inflation situation today with the value of the dollar, our dollar is going up, and still the bank decided to keep the rate of interest at a comparable high level. I wonder why you are keeping that policy of a high interest rate even though the dollar is going up. The dollar is now more than 70¢—77¢—and you still keep the rate at the higher level, and the spread between the United States and Canada.

For example, when you compare the end of October with today, the spread between the short-term rate in Canada and in the states went up from 111 points to 174 points. Even though the spread is high and the value of the dollar is going up, you are keeping an interest-rate policy very tight. Can you explain please?

Mr. Crow: There are a number of points you made, Mr. Garneau. You said that you believe inflation is under control.

Mr. Garneau: That is what everybody says.

Mr. Crow: It is certainly true that inflation has come down a long way from where it was a few years ago when it was in double digits, and I am sure we are all very happy about that.

However to say that inflation is under control is more than I would say. I do not think that is the case. I think we are making excellent progress, and we have to continue to make progress.

I would also point out that in the period over which inflation came down, the Canadian economy did rather well. As regards the Canadian dollar, it is certainly the case that there has been recovery in the Canadian dollar viewed against the U.S. dollar. It is relatively high at the moment, by recent standards.

• 1015

If you look at the Canadian dollar against the currencies of all the countries with which we trade, and even if you, as you must, give the U.S. dollar a very high weight in that comparison, it is also the case that on that basis, on let us say a weighted average basis which some people even call an effective basis, the Canadian currency has not risen a great deal, certainly not in 1987, and not before. This is because the Canadian dollar, like the U.S. dollar, has fallen a great deal against those currencies of the major countries overseas with which we trade, that are very large in world trade, not only just with Canada. That is a relevant consideration.

The Canadian economy has continued through 1987 to expand very strongly, with strong increases in spending, strong increases in money, and strong increases in credit. The strength in the Canadian dollar we have seen against the U.S. dollar reflects the weakness of the U.S. dollar to some degree against overseas currencies. It also reflects the exception of an improvement in our economic situation.

[Traduction]

Si l'on compare le taux d'inflation à la valeur de notre dollar aujourd'hui, nous constatons que ce dernier est à la hausse mais que la banque a néanmoins décidé de maintenir les taux d'intérêt à un niveau comparativement élevé. Je me demande pourquoi vous maintenez cette politique de taux d'intérêt élevés alors même que le dollar s'apprécie. Le dollar a maintenant dépassé le cap des 70¢.—il est à 77¢.—et vous continuez de maintenir les taux d'intérêt et l'écart entre les taux américains et canadiens à un niveau élevé.

Par exemple, entre le mois d'octobre et aujourd'hui, l'écart entre le taux des effets à court terme au Canada et aux États-Unis est passé de 111 points à 174. Or, malgré cet écart et l'appréciation de notre dollar, vous pratiquez une politique des taux d'intérêt très serrée. Pouvez-vous nous expliquer cela, s'il-vous-plait?

M. Crow: Monsieur Garneau, vous avez soulevé là un certain nombre de points. Vous avez dit, il me semble, que l'inflation est sous contrôle.

M. Garneau: C'est bien le consensus.

M. Crow: Il est parfaitement vrai que les taux d'inflation ont beaucoup diminué depuis le temps où ils dépassaient le cap des 10 p. 100 et nous en sommes tous ravis.

Toutefois, je n'irai pas jusqu'à dire que nous avons jugulé l'inflation. Je ne crois pas que ce soit le cas. Nous avons fait des progrès appréciables mais nous devons poursuivre nos efforts.

Je vous signale par ailleurs qu'au cours de la période sur laquelle les taux d'inflation ont diminué, l'économie canadienne se portait assez bien. En ce qui concerne le dollar canadien, il est vrai qu'il s'est apprécié par rapport au dollar américain. Il se porte relativement bien maintenant si l'on songe au niveau qu'il a atteint précédemment.

Si vous comparez le dollar canadien aux devises de nos principaux partenaires commerciaux et même si vous accordez une pondération plus lourde au dollar américain, comme il se doit, il reste néanmoins que selon cette pondération que certains jugent préférable aux fins de la comparaison, le dollar canadien ne s'est guère apprécié ni en 1987, ni avant. Cela s'explique du fait que le dollar canadien, comme le dollar américain, s'est déprécié énormément par rapport aux devises des principaux pays qui tiennent une place importante dans le commerce international et pas uniquement par leurs échanges avec le Canada. C'est là une considération pertinente.

L'économie canadienne a connu une forte poussée de croissance en 1987 allée de fortes augmentations des dépenses, de la masse monétaire et du crédit. La vigueur du dollar canadien par rapport au dollar américain reflète, dans une certaine mesure, la faiblesse de ce dernier par rapport aux autres devises. Elle reflète aussi la réaction des investisseurs à l'amélioration de notre

[Text]

It tends to be that when an economy looks as if it is doing rather well that its currency tends to do rather better. That has been something that has been apparent in the market. There are various indications that the market has seen that the Canadian economy is performing rather better, and that has also helped the currency recently.

Mr. Garneau: When I look at the statistics and consider the spread between the rate of interest in commercial paper in the States and in Canada, one can appreciate the fact that the spread has increased and the value of the dollar has increased. So if the Bank of Canada could accept, as suggested by the Chamber of Commerce, a little lower rate of interest, the value of our dollar would not fluctuate that much, and could help to create jobs.

How do you react to this suggestion of the Chamber of Commerce of Canada which said that the Bank of Canada should lower the rate of interest to prevent a negative reaction to the crash of the stock exchange in October? This is what they presented to Parliament in terms of suggestions for the coming year, and I wonder if you accept this suggestion as a basis for your action or not.

Mr. Crow: I find it a little difficult to accept that suggestion, because, in fact, interest rates are lower than they were before the crash. The prime rate is three-quarters of a point below where it was before the crash. Money market rates are about a percentage point below where they were before the crash.

As I interpreted the Chamber of Commerce statement, what it was saying was if there has to be easing in the Canadian economy, it should not come through fiscal easing, it should come through monetary easing. I think it was a hypothetical statement in relation to the way they saw the performance of the Canadian economy, which still remains to be seen. They are concerned about the need to reduce the deficit. I think that is what they were emphasizing, and it is a concern I share.

Mr. Garneau: If the deficit is a concern, you can imagine and appreciate the result on the deficit of a lower rate of interest due to the amount of the national debt.

• 1020

If you lower the rate of interest a bit it has a direct impact on the deficit. But from what you said we cannot expect to have a lower rate of interest in Canada during the coming months. I am very much preoccupied by the fact that the real rate of interest is higher than ever before, except for 1984. I believe the real rate is around 5%. Do you not think it is much too high? All political parties around this table would like to see job creation. To have a real rate of 5% compared to the standard we had in the past, which was around 2%, I think is too high. It adds to the cost of our economy and affects our competitiveness with other nations. In fact, in the long term it may have a very negative impact on the development of this country.

[Translation]

performance économique. Quand une économie se porte bien, la monnaie nationale a tendance à s'apprécier. Nous avons pu le constater sur le marché. Certains indices nous permettent de croire que la bonne tenue de l'économie canadienne a été notée par le marché et cela a donné un coup de pouce au dollar canadien ces derniers temps.

M. Garneau: Quand j'examine les statistiques et que je tiens compte de l'écart entre les taux d'intérêt du papier commercial aux États-Unis et au Canada, je constate que l'écart s'est élargi et que la valeur du dollar a augmenté. Ainsi, si la Banque du Canada pouvait accepter la proposition de la Chambre de commerce qui préconise un abaissement des taux d'intérêt, la valeur du dollar ne varierait pas tellement mais cela favoriserait la création d'emplois.

Que pensez-vous de la suggestion de la Chambre de commerce du Canada selon laquelle la Banque du Canada devrait abaisser les taux d'intérêt pour empêcher une réaction négative à la dégringolade boursière d'octobre? Voilà la recommandation qu'elle a faite au Parlement pour la nouvelle année et je me demande si vous êtes prêts à agir conformément à cette suggestion.

M. Crow: J'ai de la difficulté à l'accepter parce que les taux d'intérêt sont plus bas qu'ils ne l'étaient avant le krach. Le taux préférentiel est inférieur de trois quart d'un point à ce qu'il était avant le krach. Les taux du marché monétaire sont inférieurs d'un point de base à ce qu'ils étaient avant le krach.

Sauf erreur de ma part, la Chambre de commerce dit que s'il s'avère nécessaire de donner un ballon d'oxygène à l'économie canadienne, il vaut mieux le faire en desserrant la politique monétaire plutôt que la fiscalité. Elle exprimait ainsi une préférence hypothétique compte tenu de l'évolution prévue de l'économie canadienne sur laquelle il est encore trop tôt pour se prononcer. La Chambre de commerce préconise la réduction du déficit et c'est là-dessus qu'elle mettait l'accent et je partage ses préoccupations à cet égard.

M. Garneau: Si le déficit vous préoccupe effectivement, vous ne pouvez qu'être conscient de l'incidence qu'aurait sur ce déficit un taux d'intérêt plus bas, étant donné l'ampleur de la dette nationale.

La moindre baisse du taux d'intérêt se répercute directement sur le déficit. Mais d'après ce que vous dites, nous ne pouvons pas nous attendre à voir le taux d'intérêt baisser au Canada au cours des prochains mois. Je trouve très inquiétant que le taux d'intérêt réel soit plus élevé que jamais, sauf en 1984. Je crois qu'il se situe aux alentours de 5 p. 100. Ne pensez-vous pas que c'est beaucoup trop élevé? Tous les partis politiques représentés ici sont pour la création d'emplois. Un taux réel de 5 p. 100 au lieu des 2 p. 100 que nous avions habituellement dans le passé me paraît beaucoup trop élevé. Cela alourdit le fardeau financier de notre économie et compromet notre compétitivité avec les

[Texte]

What would be the real rate of interest, because at 5% it seems to be very, very high?

Mr. Crow: I do not think it is quite as high as 5%. It depends of course on the rate of interest one is looking at vis-à-vis the price change. But I do not want to quibble over numbers. On some basis it will look higher than it was.

It is a curious situation in some ways, Mr. Garneau. Employment in 1987 grew by 4.2%. In the fourth quarter, it grew at an annual rate of something like 5%. The real rate of interest on some measures looks higher than it used to be.

How can you reconcile those two things? Maybe those real rates are not quite as high as they look. Maybe people have fears about inflation; maybe they find money rather cheaper than it looks in terms of statistics and in terms of the current numbers. That is one possibility.

The financial system has changed over the years and has become much more competitive. There was much more credit rationing, if we go back, in terms of the allocation of funds. Interest rates did not clear the market, if I can put it that way, in quite the way they do now.

If you compare those two periods, you would see a tendency towards what seem to be higher real rates compared with the earlier period. That is another point I will make.

Finally, as regards real interest rates, there is some control that can be exercised in the short run in Canada over real interest rates, but we should not forget that there is a world capital market, a real demand and a real supply of funds. Those real interest rates very much influence what happens to the demand and supply of funds in the world capital market, which we are linked to and will continue to be linked to, including demands for funds on the parts of governments, fiscal deficits.

They are part of the demand for savings and therefore the demand for funds. They tend to induce higher rather than lower real interest rates.

Mr. Cassidy: I welcome you, Mr. Crow, and I hope that this becomes a more frequent occurrence. I believe this is only the second time you have appeared in front of the committee. The last time we were charged with making commendations as to whether we thought your appointment was a good one, given this is a partial step of parliamentary reform.

What is the inflation target of the Bank of Canada? You have indicated that this is the primary target of monetary policy, as you are directing it.

[Traduction]

autres pays. A long terme, cela peut même avoir des répercussions très négatives sur le développement du Canada.

Quel sera le taux d'intérêt réel, étant donné qu'un taux de 5 p. 100 me paraît excessif?

M. Crow: Je ne pense pas qu'il atteigne 5 p. 100. Bien sûr, cela dépend du taux d'intérêt que vous considérez par rapport à la hausse de prix. Mais je ne veux pas ergoter à propos de chiffres. D'un certain point de vue, le taux réel paraîtra plus élevé.

La situation est assez curieuse, monsieur Garneau. En 1987, il y a eu une croissance de l'emploi de 4,2 p. 100. Au cours du quatrième trimestre, cette croissance a atteint un taux annuel d'environ 5 p. 100. Dans certains contextes, le taux d'intérêt réel semble plus élevé qu'il ne l'était dans le passé.

Comment peut-on concilier les deux? Ces taux réels ne sont peut-être pas aussi élevés qu'ils semblent l'être. Il se peut que les gens craignent l'inflation; peut-être l'argent leur paraît-il moins cher qu'il n'y paraît d'après les statistiques et les chiffres réels. C'est une possibilité.

Le système financier a évolué au cours des années et il est devenu beaucoup plus concurrentiel. Dans le passé, le crédit était beaucoup plus rationné. Les taux d'intérêts n'avaient pas pour effet de dégager le marché, si je puis dire, comme c'est le cas maintenant.

Si vous comparez ces deux périodes, vous constaterez que les taux réels ont tendance à être plus élevés qu'ils ne l'étaient. Voilà un autre point sur lequel j'insisterai.

Enfin, nous pouvons exercer un certain contrôle sur les taux d'intérêt réels, à court terme, mais il faut également tenir compte du marché mondial des capitaux, de la demande réelle et de l'offre réelle de capitaux. Les taux d'intérêt réels influencent dans une large mesure l'offre et la demande de capitaux sur le marché monétaire international dont nous ne pouvons pas nous dissocier, et cela vaut également pour les fonds dont les gouvernements ont besoin pour couvrir leurs déficits.

Ces déficits exercent une demande sur l'épargne et donc sur les fonds disponibles. Ils ont tendance à faire augmenter, plutôt qu'à abaisser, les taux d'intérêt réels.

M. Cassidy: Monsieur Crow, je vous souhaite la bienvenue et j'espère que nous aurons plus souvent l'occasion de vous entendre. C'est seulement la deuxième fois, je crois, que vous comparez devant le Comité. La dernière fois, nous étions chargés de faire des recommandations au sujet de votre nomination étant donné qu'il s'agit là d'une des étapes de la réforme parlementaire.

Quel est l'objectif de la Banque du Canada à l'égard de l'inflation? Vous avez dit qu'il s'agissait du but premier de votre politique monétaire.

[Text]

[Translation]

• 1025

Mr. Crow: The target of monetary policy over time is to work towards price stability, stability of the general price level.

Mr. Cassidy: When you came before us last time, you indicated that stability, in your terms, was in fact a zero rate of inflation. Is that still your view?

Mr. Crow: That would be the ideal, Mr. Cassidy.

Mr. Cassidy: In an economy as open as Canada's, and given the tendency of what we have seen over two generations or more to a continuing, if gradual, rate of price inflation in the industrialized world, does that not therefore mean that what you are advocating for Canada is, to the extent that domestic price levels can be controlled, that we should have consistent deflation in terms of domestic price levels to offset the degree to which we import rising prices of the goods we trade in from abroad?

Mr. Crow: I am not suggesting that, Mr. Cassidy.

Mr. Cassidy: Are you not then suggesting absolute price stability, but a price level somewhat higher than 0% inflation?

Mr. Crow: No. I am not. I am suggesting that we work towards zero price inflation. I think maybe I should expand upon this.

Mr. Cassidy: If Canada imports a certain amount of inflation from abroad, because of the generally rising levels of inflation, that may be partly because of the sins and peccadilloes of politicians in different industrial countries, who perhaps are more tolerant of inflation than the central bank is. Does it not then mean that if we work towards absolute price stability in this country, to offset some inflation in the prices of imports, we have to have a falling price level on production and of goods and services in Canada, to come out to a zero inflation rate?

Mr. Crow: It just does not follow that way, Mr. Cassidy.

I think there is one variable that clearly is not in the way you are looking at it, namely what happens to the value of the Canadian dollar over time. There is at work an international adjustment mechanism that somehow reconciles a country's economic performance on the world scene, and that is the exchange rate. It is driven by a number of things, but, over time, it will be driven by the movement of a nation's currency against the movement of the currencies of its trading partners as a function of relative performances on inflation.

Mr. Cassidy: I can see that if you compare Japan and West Germany, both of which have in fact had price stability over the last two to several years, Japan has continued to have a relatively dynamic economy and price stability. West Germany, frequently criticized for not doing its bit in reweighting demand, has had price

M. Crow: Notre politique monétaire vise à assurer la stabilité des prix, la stabilité de l'indice général des prix.

M. Cassidy: À l'occasion de votre première comparution devant le Comité, vous avez dit que, pour vous, la stabilité correspondait à un taux d'inflation nul. Êtes-vous toujours de cet avis?

M. Crow: Ce serait idéal, monsieur Cassidy.

M. Cassidy: Dans une économie aussi ouverte que celle du Canada, étant donné l'inflation continue, voire graduelle, observée dans le monde industrialisé depuis au moins deux générations, ne faut-il pas en conclure que vous préconisez pour le Canada une déflation soutenue des prix intérieurs, dans la mesure où il est possible d'exercer un contrôle sur ces prix, pour compenser la hausse de prix des marchandises importées?

M. Crow: Ce n'est pas ce que je veux dire, monsieur Cassidy.

M. Cassidy: Donc, vous proposez non pas une stabilité absolue des prix, mais un taux d'inflation supérieur à 0 p. 100?

M. Crow: Non. Je préconise de viser un taux d'inflation nul. Peut-être devrais-je fournir des explications supplémentaires à ce sujet.

M. Cassidy: Si le Canada importe une certaine inflation de l'étranger, du fait que les taux d'inflation ont tendance à augmenter un peu partout, la faute peut en être attribuée, en partie, aux politiciens de divers pays industriels qui sont sans doute plus tolérants vis-à-vis de l'inflation que la banque centrale. Ne faut-il pas en conclure que si nous visons, au Canada, une stabilité absolue des prix, pour compenser la hausse du prix des importations, nous allons devoir abaisser le prix des biens et services produits au Canada, de façon à parvenir à un taux d'inflation nul?

M. Crow: Les choses ne se passent pas ainsi, monsieur Cassidy.

De toute évidence, vous oubliez un facteur, soit les variations du cours du dollar canadien. Il existe un mécanisme de redressement international qui tient compte de la performance économique d'un pays sur la scène mondiale, à savoir le taux de change. Ce taux est fonction de plusieurs variables, mais il est surtout régi par l'évolution de la monnaie d'un pays, par rapport à celle de ses partenaires commerciaux, et cela, selon les résultats obtenus par chacun des pays en question, sur le plan de l'inflation.

M. Cassidy: Si vous comparez le Japon et l'Allemagne de l'Ouest, deux pays où les prix ont été stables depuis au moins deux ans, il est certain que le Japon a conservé une économie relativement dynamique et une stabilité des prix. L'Allemagne de l'Ouest, à laquelle on reproche souvent de ne pas faire sa part pour refréner la demande

[Texte]

stability. Its exchange rate has been rising, but one cost of that has been a rate of unemployment I believe has in fact exceeded that of Canada.

Is it not therefore possible that the pursuit of price stability can lead us to the German result rather than the Japanese result, to levels of unemployment that may well be considered to be unacceptably high?

Mr. Crow: Good monetary policy, monetary policy that promotes confidence in the value of the currency issued, is an important condition for good economic performance, but not a sufficient condition for good economic performance.

Mr. Cassidy: That is a somewhat Delphic response to my question, Governor.

Mr. Crow: The question was going in many directions, Mr. Cassidy.

Mr. Cassidy: A week or so ago you stated that the current rate of inflation, although stable, is not rising, but is nonetheless not low enough to allow a cut in interest rates.

Can you give us some indication whether it is only when we get to zero inflation that you believe we can make some solid cuts in interest rates? Is there a point of inflation where the inflation rate might see you feeling that it was the time to allow reductions in interest rates in Canada, prior to—

• 1030

Mr. Crow: All I can say, simply, is that I have no recollection whatsoever of having made the statement Mr. Cassidy has attributed to me. I have seen statements attributed to me like that in the press—and this may be where you saw it—but I did not make it.

Mr. Cassidy: I would like to ask about the impact of the current levels of interest rates on both economic growth and investment needs, and also about your perception of the degree to which the economy of the country may be in danger of heating up now because of heavy demand in southern Ontario and to some extent in the Montreal Island region and in the province of Manitoba.

Do you consider that demand levels in that region, in central Canada, are in fact close to a position where they may be threatening to initiate some kind of a wage-price spiral or of an inflationary spiral?

Mr. Crow: Yes, I think there is that danger.

Mr. Cassidy: I do not agree with this, but nonetheless many economists have argued that one now should talk about a non-inflationary rate of employment and that if employment falls below a certain level then it is bound to produce inflation. They have also argued that the non-inflationary rate of unemployment has been rising over the last few years, from the time back in the 1960s, for example, when the Economic Council thought we could have unemployment rates as low as 3% or 3.5%.

[Traduction]

est également parvenue à la stabilité des prix. La valeur de sa monnaie a augmenté, ce qui lui a valu un taux de chômage qui, je crois, dépassait celui du Canada.

Par conséquent, en visant la stabilité des prix, ne risquons-nous pas d'obtenir les mêmes résultats que l'Allemagne plutôt que ceux du Japon, soit un taux de chômage excessif?

M. Crow: Une bonne politique monétaire propre à donner confiance dans la valeur de la monnaie du pays et une condition importante à remplir pour obtenir de bons résultats économiques, mais cela ne suffit pas.

M. Cassidy: Voilà une réponse plutôt nébuleuse, monsieur le gouverneur.

M. Crow: Votre question s'orientait dans plusieurs directions, monsieur Cassidy.

M. Cassidy: Il y a une huitaine de jours, vous avez dit que le taux d'inflation actuel demeurerait stable, mais qu'il n'était pas assez bas pour permettre de réduire les taux d'intérêt.

Pourriez-vous nous dire s'il faudra attendre de parvenir à un taux d'inflation nul pour pouvoir abaisser sérieusement les taux d'intérêt? Si le taux d'inflation tombe en-dessous d'un certain seuil pensez-vous pouvoir réduire les taux d'intérêt, au Canada. . .

M. Crow: Je ne me souviens pas d'avoir tenu les propos que m'attribue M. Cassidy. La presse m'a attribué ce genre de déclaration, et c'est peut-être là que vous l'avez lue, mais je n'ai rien dit de tel.

M. Cassidy: Je voudrais vous demander quel est l'effet des taux d'intérêt actuels sur la croissance économique et l'investissement et dans quelle mesure, selon vous, l'économie du pays risque une surchauffe à la suite de la forte demande émanant du sud de l'Ontario, de même que de l'Île de Montréal et du Manitoba.

Pensez-vous que la forte demande émanant de cette région, soit du centre du pays, risque d'entraîner une inflation en spirale des prix et des salaires?

M. Crow: Oui, ce risque me paraît bien réel.

M. Cassidy: Je ne suis pas d'accord avec eux, mais de nombreux économistes préconisent un taux d'emploi non inflationniste en faisant valoir que si le chômage tombe en-dessous d'un certain niveau, il tend à créer de l'inflation. Ils affirment également que le taux de chômage non inflationniste a augmenté ces dernières années, par exemple, depuis les années 1960 où le Conseil économique pensait que nous pouvions avoir un taux de chômage ne dépassant pas 3 ou 3,5 p. 100.

[Text]

Does the bank accept the view of many conventional or orthodox economists that this concept of a non-inflationary rate of unemployment is a valid one?

Mr. Crow: Yes, we do accept that concept.

Mr. Cassidy: Can you indicate for Canada what you believe the non-inflationary minimum rate of unemployment would be under 1988 conditions? That is a very real question, because these are prebudgetary hearings and this is one of the questions that is very important in light of the fiscal side of policy, on which the Minister of Finance is presumably putting the finishing touches right now.

Mr. Crow: I am not prepared to give a point number to such a broad concept. What one can talk about is a zone of not non-inflation so much as... "Non-accelerating inflation rate of unemployment" is the technical term, and I think we are talking about the same thing.

Mr. Cassidy: Yes.

Mr. Crow: I think we are very close to that zone as I see developments on the cost/price side.

Mr. Cassidy: If you say we are very close, I take it then that you are saying that if unemployment were to drop, let us say, by more than a point from the present level then in effect we would have gone over that dividing line. Is that right?

Mr. Crow: We would be very, very close. That you are getting warm is what I am saying.

Mr. Cassidy: I asked this because of the degree to which we have seen the emergence of two Canadas.

I travel frequently to England because my wife's mother lives there and I lived there myself for six years and, as you know, in England it is even more marked and evident because it is a small country. You travel traditionally 150 miles north of London to find the dividing line, and then—as you know, being of British origin—that dividing line has been moved down to the point where it was within 35 or 40 miles of London four or five years ago. Now it is moving back up again, but there is no question of there being two economies in England, and we have the same thing here.

If you say that we are very close and could be very, very close if there is any further reduction in unemployment, that means then that, for regions of the country like Atlantic Canada, like large parts of Quebec, like substantial parts of the Western Provinces and British Columbia, there is literally no hope in their view, for them, of having their unemployment rates fall below, let us say, 10% or 12% levels, which in the past have been treated as being totally unacceptable. The disparities in the country are such that for their rates to fall below 10% or 12%, the national average rate of unemployment will have gone out of the danger zone, and we are going to get the Bank of Canada crashing in with monetary moves in

[Translation]

La Banque est-elle d'accord avec de nombreux économistes orthodoxes quant à la validité du principe du taux de chômage non inflationniste?

M. Crow: Oui, nous acceptons ce principe.

M. Cassidy: Pouvez-vous nous dire quel serait, pour le Canada, le taux de chômage non inflationniste minimum en 1988? C'est une question très sérieuse étant donné que nous tenons actuellement des audiences prébudgétaires et qu'il s'agit là d'un des aspects très important de la politique financière que le ministre des Finances est sans doute en train de peaufiner.

M. Crow: Je ne peux pas citer de chiffres précis pour un principe aussi général. Nous pouvons parler d'un «taux de chômage n'accéléralant pas l'inflation», car il s'agit du terme technique, plutôt que d'un taux de non-inflation, mais je pense que nous parlons de la même chose.

M. Cassidy: En effet.

M. Crow: Je crois que nous en sommes très près si je tiens compte de l'évolution des coûts et des prix.

M. Cassidy: Si vous dites que nous en sommes très près, j'en conclus que si le taux de chômage diminuait, disons de plus d'un point, nous franchirions cette ligne de démarcation. Est-ce exact?

M. Crow: Nous en serions très très près. Je dis simplement que nous nous en rapprochons.

M. Cassidy: Si je pose la question c'est parce que nous voyons se créer deux Canada.

Je vais souvent en Angleterre, car ma belle-mère y habite et j'y ai moi-même vécu pendant six ans. Comme vous le savez, ce phénomène est encore plus marqué en Angleterre étant donné qu'il s'agit d'un petit pays. Avant, cette ligne de démarcation se trouvait à 150 milles au nord de Londres et, comme vous le savez, étant d'origine britannique, elle s'est rapprochée à 35 ou 40 milles de Londres, il y a quatre ou cinq ans. Elle s'éloigne de nouveau, mais il ne fait aucun doute qu'il existe deux économies en Angleterre et que la même chose se produit chez nous.

Si vous dites que nous en sommes très près et que nous en serons encore plus près si le taux de chômage diminue davantage, cela veut dire que les régions comme celles de l'Atlantique, et de grandes parties du Québec, des provinces de l'Ouest et de la Colombie-Britannique n'ont pratiquement aucun espoir de voir leur taux de chômage baisser en-dessous de 10 ou 12 p. 100, disons, ce qui était jugé tout à fait inacceptable jusqu'ici. Étant donné les disparités qui existent au Canada, pour que leur taux de chômage tombe en dessous de 10 ou 12 p. 100, il faudrait que le taux de chômage national moyen descende en dessous du seuil de danger. La Banque du Canada interviendra alors pour limiter la masse monétaire ou

[Texte]

order to basically restrict the money supply or drive up interest rates or another means, to prevent unemployment from falling any further.

• 1035

Would that not be an accurate understanding of the view you are presenting?

Mr. Crow: Not at all, Mr. Cassidy. There are a number of points I will have to make here.

It is true that we have important economic disparities in the country, and they are unusually large, or have been unusually large. I think they were beginning to narrow as we went through 1987, by the way. Commodity prices improved, and the economic conditions in a number of the areas, outside the ones that you singled out as being highly manned, did get better.

Distribution does matter here. When we look at, as you know, an 8.1% recorded rate of unemployment, that hides or masks a wide variation in recorded unemployment rates. With a more even distribution of unemployment or labour market conditions—put it that way—across the country, that in itself, I think, would help to improve the overall functioning of the labour market in the way we have been analysing it. I think there were some hopeful signs in that direction as we went through 1987, and we should welcome them. I welcome them, anyway.

As regards unemployment, it is true that there is only a limited amount that can be done vis-à-vis unemployment through general-demand policies. It certainly is the case, and we know that very well now, that you do not increase employment in any kind of sustained way at all, if at all, through policies that are continually pressing against the limits of demand and causing inflation.

It is also well known that there are important structural considerations, in terms of the way an economy runs its affairs, that are relevant to how unemployment develops in an economy, as recorded. And to the extent one can improve the function of a labour market, one can hope to reduce the non-accelerating inflation rate of unemployment over time.

Mr. Cassidy: I thank you for the comments, but you indicate that if we were able to have a more even distribution of employment, then it would be possible for the average rate to come down lower. Nonetheless—

Mr. Crow: That would be one factor, yes, Mr. Cassidy.

Mr. Cassidy: But right now we have disparities, as you know, where the unemployment rates in southern Ontario are down to levels very close to what was considered full employment 20 years ago. They are down to 5% or in certain cases 4% or even a bit below. And the major obstacles to increased employment in those areas are such factors as the cost of housing and other obstacles to mobility of labour moving into those areas, because people just cannot afford to go.

[Traduction]

faire grimper les taux d'intérêt pour empêcher le taux de chômage de tomber encore plus bas.

N'est-ce pas une bonne interprétation de votre politique?

M. Crow: Absolument pas, monsieur Cassidy. Il y a plusieurs points que je voudrais faire valoir.

Il est vrai qu'il existe d'importantes disparités économiques au Canada et que ces disparités ont été extrêmement marquées. En tout cas, elles ont commencé à s'atténuer en 1987. Le prix des denrées a augmenté et la situation économique s'est améliorée dans plusieurs régions, en dehors de celles que vous avez citées.

Cela soulève la question de la répartition. Si vous prenez un taux de chômage officiel de 8,1 p. 100, ce chiffre masque une importante variation dans les taux de chômage. Si le chômage ou la situation du marché du travail, si je puis dire, étaient mieux répartis entre les régions du pays, cela suffirait à améliorer le fonctionnement global du marché du travail, selon l'analyse que nous en avons faite. Je pense que nous avons constaté une tendance dans cette voie en 1987, ce qui est une bonne chose. En tout cas, je m'en réjouis.

Pour ce qui est du chômage, la politique générale à l'égard de la demande ne permet d'y remédier que dans une certaine mesure. Comme chacun sait, le fait est qu'il est impossible d'accroître l'emploi de façon soutenue au moyen de politiques qui exercent des pressions constantes sur la demande et entraînent une inflation.

D'autre part, comme chacun sait, la façon dont le chômage se développe dans une économie est fonction d'importantes considérations structurelles quant à la façon dont l'économie en question gère ses affaires. Et dans la mesure où il est possible d'améliorer le fonctionnement du marché du travail, on peut espérer réduire, avec le temps, le taux de chômage n'accéléralant pas l'inflation.

M. Cassidy: Je vous remercie de vos explications, mais vous dites que si nous pouvions mieux répartir le chômage, il serait possible d'abaisser le taux moyen. Néanmoins...

M. Crow: Il s'agirait d'un facteur, en effet, monsieur Cassidy.

M. Cassidy: Mais pour le moment, les disparités sont telles que dans le sud de l'Ontario le taux de chômage ne dépasse pas un niveau considéré très près du plein emploi, il y a 20 ans. Il n'est que de 5 p. 100, ou même de 4 p. 100 ou moins encore. Les principaux obstacles à la croissance de l'emploi dans ces régions sont le coût du logement et les autres facteurs qui empêchent les gens d'aller chercher du travail là-bas, parce qu'ils n'en ont pas les moyens.

[Text]

But at the same time we have rates of unemployment in Newfoundland, for example, which remain at three or four times that level—which is surely unacceptable in anybody's language. What I would gather is that for the short and probably the medium term, however desirable it may be to have structural changes from more even distribution of employment... at least for the short and medium term, the message I am hearing from the Bank of Canada is that you are not prepared to tolerate an acceleration of growth and a further substantial reduction of unemployment on average across the country because of the fears of inflation, and that those regions with high rates of unemployment are therefore going to have to grin and bear it while they watch on television to see how prosperous, relatively speaking, central Canada is becoming. For the short and medium term that is the message, is that not correct?

• 1040

Mr. Crow: That is not correct, Mr. Cassidy.

I am concerned that this country has a good economic performance over time, as are you. We have to follow the kinds of policies that are likely to generate good economic performance over time; that is what monetary policy has to be concerned with.

Economic conditions themselves change relative levels of unemployment across the country. That was the point I was making in terms of regional distribution. What we saw was, I would say, a tendency towards better balance in the course of 1987 from development of market forces, if you wish, not changing structural arrangements particularly. That was an important element and the improvement was beginning to show up in 1987.

There is another question which is a longer term and a deeper question: to what extent can one improve upon the operations of the labour market to bring down the structural obstacles in the way of lower unemployment? It is a very serious question and it is a long-term general question for the Canadian economy, as for a number of other economies.

Mr. Cassidy: Is the bank prepared, and does the bank have policies by which it would seek, using the monetary instruments at your disposal, to try to contribute to a more even distribution of economic growth and therefore to a less inequitable distribution of unemployment than exists right now?

Mr. Crow: There is a fundamental point about monetary policy that I perhaps should state now. You can only have one monetary policy for the country. We have one financial market, and we should be happy about that since we are one country, and funds flow across the country. What this means in very practical terms is that you have one set of interest rates across the country, depending upon risk elements as perceived by borrowers and lenders, but the structure of interest rates is the same across the country.

[Translation]

En même temps, nous avons, à Terre-Neuve, par exemple, des taux de chômage qui demeurent trois ou quatre fois plus élevés, ce qui est certainement inacceptable. Si j'ai bien compris, aussi souhaitable soit-il d'apporter des changements structurels et en même temps une meilleure répartition de l'emploi... du moins à court et à moyen termes, la Banque du Canada n'est pas disposée à accepter une accélération de la croissance et une nouvelle réduction importante du taux de chômage national moyen par crainte de l'inflation. Autrement dit, les régions durement touchées par le chômage devront se résigner pendant qu'elles verront, à la télévision, le centre du pays devenir de plus en plus prospère. Est-ce bien ce qu'il faut comprendre, en ce qui concerne la situation à court et à moyen terme?

M. Crow: C'est inexact, monsieur Cassidy.

Je tiens, autant que vous, à ce que notre pays ait une bonne économie. Nous devons adopter des politiques propres à donner de bons résultats économiques et tel doit être le but de notre politique monétaire.

La situation économique contribue, elle-même, à modifier les taux de chômage relatifs dans les diverses régions du pays. Voilà ce que je voulais dire à propos de la répartition régionale. En 1987, cette répartition a commencé à mieux s'équilibrer, sous l'effet des forces du marché et non pas de changements structurels. Il s'agissait là d'un élément important et cette amélioration a commencé à se manifester en 1987.

Cela soulève un autre problème plus profond et à plus long terme: dans quelle mesure est-il possible d'améliorer la performance du marché du travail de façon à abaisser les obstacles structurels qui s'opposent à la réduction du chômage? Il s'agit là d'une question très importante qui se pose, à long terme, à l'économie canadienne de même qu'à plusieurs autres économies.

M. Cassidy: La banque est-elle prête à utiliser les instruments monétaires à sa disposition pour favoriser une répartition plus équitable de la croissance économique et, par conséquent, une répartition moins inéquitable du chômage qu'actuellement.

M. Crow: Sans doute devrais-je énoncer un principe fondamental de la politique monétaire. Nous ne pouvons adopter qu'une seule et unique politique monétaire pour le Canada. Nous avons un marché financier, ce dont nous devrions nous réjouir étant donné que nous constituons un seul et même pays et que l'argent y circule d'un bout à l'autre. En pratique, cela veut dire que les taux d'intérêt sont les mêmes d'un bout à l'autre du pays, et qu'ils dépendent des facteurs de risque perçus par les emprunteurs et les prêteurs. Néanmoins, la structure des taux d'intérêt est la même d'un bout à l'autre du Canada.

[Texte]

We look at economic developments for the country as a whole. The numbers I was quoting to you in terms of growth of employment—we could also quote numbers on the growth of production, etc.—are for the country as a whole. Every part of the country is included in those numbers, so it follows that they include the parts which have not been doing as well as the centre.

It is also the case that we look at the distribution of economic conditions and from time to time perhaps have tempered our policies, bearing in mind that some areas are not doing as well as others, and perhaps the conditions will even out in a little while. I think we have followed a very careful set of policies in the course of 1987 in this regard.

Coming back to the point I made at the beginning, you cannot have different monetary policies for different regions; you have to look at the whole country and then make up your mind what is the right policy for the whole country.

Mr. Cassidy: I will end this round with this question, Governor, and then perhaps come back. I do not want to take up too much time from my colleagues.

If you say that it is not possible for monetary policy to help to iron out the regional disparities in the country, then the burden of that occurring is left either to the market or to structural labour market policies which have been pursued in this country for 25 years without as much success as all of us would hope—in fact we seem to be going the other way in many respects—and thirdly through fiscal policies.

• 1045

It is my impression that the free trade agreement is going to put major obstacles into the path of structural and regionally oriented policies that are designed to try to ensure better distribution of employment opportunities. Specifically, every time we bring in some kind of program of regional incentives or regional development subsidies or those kinds of things, if the affected industries become subject to countervail by the Americans or become subject to American intervention because of the way we carry out our economic and fiscal policies in this country, then where is the way out of disparities, which have existed in this country since Confederation?

Do the people in Alberta or the Maritimes just simply have to wait until the market in its beneficence decides that it is their turn again? Maybe wooden sailing ships will come back into vogue or something else like that will help to bring the Maritime economy around. If we cannot work on the monetary side, as you say, and if we cut off ability to apply many structural and fiscal policies on a regional basis, then what is left beyond leaving those regions to simply live or die on a market that has demonstrated in the past it is not very kind to them. In the United States also it has been demonstrated that it is not kind to the remoter regions, many of which are along

[Traduction]

Nous examinons la situation économique du pays dans son ensemble. Les chiffres que je vous ai cités en ce qui concerne la croissance de l'emploi—et nous pourrions également en citer pour la croissance de la production, etc.—valent pour l'ensemble du pays. Ces chiffres englobent chaque région du Canada et comprennent donc les régions qui ne s'en tirent pas aussi bien que le centre.

D'autre part, nous examinons la répartition des conditions économiques ce qui nous a parfois amenés à modérer nos politiques en nous disant que certaines régions étaient moins prospères que d'autres et que la situation s'équilibrerait peut-être dans quelque temps. Nous avons suivi, je pense, une série de politiques soigneusement étudiées en 1987, à cet égard.

Pour en revenir à ce que je disais tout à l'heure, vous ne pouvez pas avoir de politiques monétaires différentes pour chaque région; vous devez décider de la politique à adopter pour le Canada en tenant compte du pays dans son ensemble.

M. Cassidy: Je vais poser une dernière question, monsieur le gouverneur, et je pourrais peut-être entamer une nouvelle série de questions plus tard. Je dois laisser du temps pour mes collègues.

Si vous dites que la politique monétaire ne peut pas atténuer les disparités régionales au Canada, cette tâche revient au marché ou aux politiques structurelles, visant le marché du travail, qui ont été mises en oeuvre au Canada depuis 25 ans, sans autant de succès que nous l'aurions tous espéré—en fait, nous semblons aller dans la direction opposée à bien des égards—et, troisièmement, il faut le faire au moyen de la politique financière.

J'ai l'impression que l'accord de libre-échange va opposer des obstacles importants aux politiques structurelles, orientées sur les régions, et destinées à mieux répartir l'emploi. Plus précisément, si chaque fois que nous introduisons un programme d'encouragements régionaux ou de développement régional, ce genre de choses, les industries concernées courent le risque de mesures compensatoires de la part des Américains; si les Américains risquent d'intervenir pour protester contre nos politiques économiques et fiscales, comment ferons-nous pour supprimer ces disparités qui existent depuis la Confédération?

Est-ce que la population de l'Alberta et des Maritimes devra attendre que le marché, dans sa grande bonté, décide que c'est de nouveau leur tour? Peut-être qu'on va recommencer à construire des navires en bois, c'est une idée, pour redresser l'économie des Maritimes. Si nous ne pouvons pas intervenir sur le plan monétaire, comme vous le dites, et si nous rendons impossibles les politiques structurelles et fiscales axées sur les régions, quelles solutions reste-t-il, sinon laisser ces régions survivre ou disparaître dans un marché qui a prouvé déjà qu'il ne leur était pas très favorable. C'est une politique qui ne s'est pas avérée très favorable non plus pour les régions

[Text]

the Canada-U.S. border and which also have a low growth rate and a lower per capita income than many of the other more prosperous areas in the United States.

Mr. Crow: I really have no comment, Mr. Chairman, because we are getting away from monetary policy in areas I do not think it is appropriate for me to comment upon. However, I think there are a number of premises in your comments, Mr. Cassidy, that not everybody would necessarily share.

Mr. Warner: In the last few months, the major economic powers of the world have been intervening in currency markets to support the U.S. dollar and, I suppose, the Canadian dollar as well. The extent of this support has really become quite substantial. As indicated by the Bank of Japan, they show foreign reserves at a record high of some \$81.5 billion at the end of December. According to the French Finance Minister, there was a secret agreement among the G-7 Finance Ministers in December that the G-7 countries are going to continue this intervention and with much more effort and much more force than before.

I am wondering what the extent of your involvement is and I am also wondering what the cost of this involvement is.

Mr. Crow: The Bank of Canada is involved in one sense, Mr. Warner, as agent for the Government of Canada, for the Minister of Finance in this particular instance. We do conduct the intervention operations on behalf of the exchange stabilization fund, which is the property of the Government of Canada. It is not on our books.

The information on reserves is published every month by the Minister of Finance, not by the Bank of Canada. We just carry the numbers in our reports, the public documentation. It is true, if you look at those numbers, that Canada's dollar reserves have been rising. This has reflected the currency movements that have taken place.

As you mentioned, the French Minister of Finance said this was a secret agreement. If there is such a thing, I think we should let it remain secret. As you said, it is between Ministers of Finance.

• 1050

Mr. Warner: The Federal Reserve Board was buying \$2 or \$3 billion a day. That intervention is fairly costly. And if they are doing that, I would assume that your activity has increased as well. As you say, your foreign reserves are probably at least double what they were in your last visit. Can you give any indication of this increased volume and this increased commitment, and can you give an idea of how much it is going to cost our government?

[Translation]

isolées des États-Unis, très souvent le long de la frontière Canada-États-Unis où le taux de croissance est faible et le revenu par habitant inférieur à ce qu'il est dans d'autres régions plus prospères des États-Unis.

M. Crow: Monsieur le président, je n'ai pas d'observation à faire car nous sortons du domaine de la politique monétaire pour pénétrer dans des domaines qu'il ne m'appartient pas de commenter. Cela dit, monsieur Cassidy, vous avez avancé un certain nombre d'hypothèses qui ne sont peut-être pas partagées par tout le monde.

M. Warner: Depuis quelques mois, les principales puissances économiques du monde sont intervenues pour soutenir le dollar américain et, j'imagine, le dollar canadien également, sur les marchés monétaires. Cette intervention a fini par être considérable. Comme la Banque du Japon l'a annoncé, ses réserves de monnaies étrangères ont atteint un niveau record, 81.5 milliards de dollars à la fin de décembre. D'après le ministre des Finances français, les ministres des Finances du Groupe des sept se sont mis d'accord en secret, en décembre, pour continuer cette intervention, mais avec beaucoup plus de vigueur.

J'aimerais savoir dans quelle mesure vous participez à cet effort, j'aimerais savoir également combien il en coûte.

M. Crow: D'une certaine façon, monsieur Warner, la Banque du Canada participe en tant qu'agent du gouvernement du Canada et, dans ce cas particulier, du ministre des Finances. Nous organisons les interventions au nom du Fonds de stabilisation du change qui appartient au gouvernement du Canada. Cela ne fait pas partir de notre comptabilité.

Des informations sur les réserves sont publiées chaque mois par le ministre des Finances et non pas par la Banque du Canada. Nous nous contentons d'indiquer les chiffres dans nos rapports, dans la documentation que nous publions. Si l'on consulte ces chiffres, il est exact que les réserves du Canada en dollars ont augmenté. C'est le résultat des mouvements de monnaies auxquels nous avons assisté.

Comme vous l'avez dit, le ministre français des Finances a déclaré qu'il s'agissait d'une entente secrète. Si ce genre de chose est possible, je pense que nous devrions le laisser le secret. Comme vous l'avez dit, cela se passe entre ministres des Finances.

M. Warner: Apparemment, le Federal Reserve Board achetait deux ou trois milliards de dollars par jour; ce genre de choses est assez coûteux. S'ils font cela, j'imagine que vos activités ont dû augmenter également. Comme vous l'avez dit, vos réserves étrangères ont probablement doublé par rapport à ce qu'elles étaient au moment de votre dernière visite. Pouvez-vous nous donner la mesure de cette augmentation, de cette intervention accrue, non?

[Texte]

[Traduction]

donner une idée de ce qu'il va en coûter à notre gouvernement?

Mr. Crow: In terms of cost, it really depends. You can do it as a profit-and-loss transaction. You buy and sell and asset, and depending upon the price at which you want to value that asset, and the currency you want to value it in, you will generate over time a series of profit-and-loss statements on the inventory of the assets you buy at the price you buy them and the price you sell them. I think the Bank of Canada's record, if one wants to look at it that way, has not been bad. We have not generated systematic losses.

M. Crow: Pour ce qui est du coût, cela dépend. On peut mener l'opération dans un esprit commercial. Il s'agit d'acheter et de vendre un bien et, en fonction de la valeur que vous attribuez à ce bien, et de la monnaie que vous choisissez pour exprimer ces valeurs; avec le temps, vous obtenez une série de bilans de profits et pertes pour le bien que vous achetez au prix où vous l'achetez et au prix où vous le vendez. Si vous regardez les choses de cette façon, la Banque du Canada ne s'est pas trop mal débrouillée par le passé. Nous n'avons pas subi des pertes systématiques.

I did notice that the Bundesbank has maybe generated a large loss this year through an increase in its holdings of U.S. dollars, the U.S. dollar having declined over that period against the Deutschmark. So if you count in Deutschmarks, you have made a loss.

J'ai remarqué à la Bundesbank avait éprouvé des pertes importantes cette année après avoir acquis des dollars américains qui, par la suite, ont perdu de leur valeur par rapport au mark allemand. Par conséquent, si vous comptez en marks, il y a perte.

It also depends upon the starting point for that kind of operation. As currencies move around like this, it is clear that you can get different results depending upon what the point of initial valuation is of the operations over the time period.

Cela dépend également du point de départ de ces transactions. Dans une période où les monnaies circulent rapidement de cette façon, il est évident que les résultats diffèrent selon le moment choisi comme point de départ des opérations.

The basic operations conducted for the exchange fund, as the Minister has said on many occasions, are essentially smoothing operations to make sure that the market does not leap over points of trade. That essentially is what our operations represent. It is also true that there are agreements on a broader frame, international economic co-operation, that may involve certain types of intervention; but I think those kinds of operations are best done in the market and not telegraphed or dissected in a public forum. In fact, I really do not have the right to dissect them. It is really the Department of Finance's responsibility to do that, Mr. Warner.

Comme le ministre l'a répété à plusieurs reprises, le Fonds des changes agit surtout pour faciliter les opérations et s'assurer que le marché ne s'emballe pas. Voilà, au fond, la raison d'être de nos opérations. Il existe également, c'est certain, des ententes sur un plan plus vaste, des ententes de coopération économique internationale qui peuvent comporter certains types d'interventions. Cela dit, je considère que ces opérations-là ont leur place sur le marché et ne doivent pas être disséquées dans une tribune publique. Monsieur Warner, cette responsabilité appartient au ministère des Finances.

Mr. Warner: This activity, I would assume, would be well co-ordinated among other members of the G-7, and that is something that the Finance Minister rather than yourself would be involved with, is that right?

M. Warner: J'imagine que cette activité est bien coordonnée entre les différents membres du Groupe des sept et que c'est surtout le ministre des Finances qui s'en occupe, beaucoup plus que vous?

Mr. Crow: Not exactly. Some G-7 meetings take place among Finance Ministers only. Most have taken place with Ministers and governors there. But in any case, the position that Canada adopts at these meetings is one in which the Bank of Canada is involved in the preparation. We maintain very close contacts at all levels with the Department of Finance, and I have regular consultations with the Minister. We discuss these things as well as many others, and the bank is involved in the preparation of the Canadian position on the whole range of G-7 issues.

M. Crow: Pas exactement. Certaines réunions du Groupe des sept sont réservées aux ministres des Finances exclusivement. Dans la plupart des cas, les ministres et les gouverneurs sont présents. Cela dit, lors de ces réunions, le Canada adopte une position qui a été arrêtée avec la participation de la Banque du Canada. À tous les niveaux nous entretenons des contacts très étroits avec le ministère des Finances et j'ai moi-même des consultations régulières avec le ministre. Nous discutons de ces problèmes, entre autres, et la Banque participe à la définition de la position canadienne pour tout ce qui intéresse le Groupe des sept.

Mr. Warner: Did you attend the meeting in December?

M. Warner: Avez-vous assisté à la réunion de décembre?

Mr. Crow: There was not a meeting in December. There was a series of telephone conversations and exchanges of messages.

M. Crow: Il n'y a pas eu de réunion en décembre. Il y a eu une série de conversations téléphoniques et de messages.

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Mr. Warner: Do you feel the activities in the exchange markets in the last year, where we have seen volatile changes, are pushing the G-7 countries closer to considering monetary union than perhaps in the past?

Mr. Crow: I think it is certainly making people think about the kind of system they want.

• 1055

There is no doubt that there has been some interest within that range of issues in the question of monetary union. It is a little bit of a flight of fancy, I think, if one thinks of this for the world as a whole, perhaps less of a flight of fancy if one thinks of it in terms of Europe. I think that is where the most serious and searching discussions of this kind of idea are being conducted at the present time. But that is also part of a much broader concept or framework, which is European economic and political unity. I know many people in Europe see the monetary union as a way of promoting even political unity as well as, say, economic unity.

I think some people in Europe see this more than others do, and one sees indications of this exchange of views, if I can put it that way, in the press even in the last few days vis-à-vis the question of whether or not there should be a European central bank and who is going to run it. It seems that question is very much on the front burner in Europe, at least for the while, according to the reports I see. But that is a very special kind of situation, I would suggest.

Mr. Warner: Do you know if there are any discussions going on now among the G-7 countries on this particular topic?

Mr. Crow: Not to my knowledge, Mr. Warner.

Mr. Warner: Do you feel we could be better off with certain fixed rates than the floating rate system?

Mr. Crow: It is a very big question, and one should not give short answers to big questions, but I think the short answer is no. I think the basic issue is the quality of the underlying economic policies that countries pursue. The only case, I think, for a fixed rate system is if somehow that would bring about a clear improvement in the kinds of policies that particular countries pursue, and I think that remains to be demonstrated.

The virtue of a floating-rate system is that it can absorb shocks in the system and differences in economic performance. It can also generate misalignments in exchange rates, it seems, as currency markets overshoot—I think that is the term used—or get excited or jittery, and that is an issue and a problem.

I think one of the nice questions that has been thrown up is: to what extent is that a function of a poor mix of policies around the world, and to what extent is it a function of the fact that financial markets do move rather fast? I am of the view that we have to work at the underlying policies, and I would rather stress that than

[Translation]

M. Warner: Pensez-vous qu'avec le caractère volatile des marchés des changes, au cours de l'année passée, les pays du Groupe des sept sont plus près d'envisager une union monétaire que par le passé?

M. Crow: Il est certain que cela fait réfléchir les gens au système le plus souhaitable.

Il est certain que toute cette situation a suscité un certain intérêt pour la possibilité d'une union monétaire. Évidemment, si l'on envisage cela pour le monde entier, c'est assez fantaisiste, mais moins fantaisiste si l'on pense à l'Europe. C'est là qu'on assiste aux discussions les plus sérieuses et les plus approfondies sur cette possibilité. Mais c'est également un élément d'un concept ou d'un principe bien plus vaste, celui de l'unité économique et politique de l'Europe. Je sais qu'en Europe beaucoup de gens considèrent que l'union monétaire est un jalon dans la voie d'une unité politique qui viendrait compléter l'unité économique.

En Europe, il y a des gens qui voient cela plus clairement que d'autres, et ces réflexions transparaissent dans la presse comme cela a encore été le cas depuis quelques jours à propos du projet de Banque centrale européenne et de la question de savoir qui la dirigerait. C'est une question qui semble très présente dans l'actualité européenne, du moins pour l'instant, d'après les rapports que j'ai pu voir. Mais c'est une situation très particulière, à mon avis.

M. Warner: Savez-vous si les pays du groupe des sept discutent actuellement de cette question?

M. Crow: Pas que je sache, monsieur Warner.

M. Warner: Pensez-vous qu'il vaudrait mieux remplacer les taux flottants par des taux fixes?

M. Crow: C'est une très grosse question, et il ne faut jamais chercher à donner une réponse rapide aux grosses questions, cela dit, je crois que rapidement la réponse est tout de même non. La question fondamentale, c'est la qualité des politiques économiques sous-jacentes des divers pays. Le seul argument en faveur d'un système de taux fixes serait une amélioration nette des politiques individuelles des pays, ce qui reste à prouver.

La vertu d'un système de taux flottants est qu'il peut absorber les chocs et répercuter les différences de performance économique. Il peut également dérégler les taux de change, lorsque les marchés des monnaies surréagissent, je crois que c'est le bon terme, ou lorsqu'ils deviennent instables ou volatiles, et c'est une préoccupation et un problème.

Une question intéressante a été posée: Dans quelle mesure cela est-il fonction de la mauvaise politique de certains pays du monde et dans quelle mesure fonction de la rapidité avec laquelle les marchés financiers bougent? Personnellement, je considère que nous devons travailler sur les politiques sous-jacentes et c'est là-dessus que

[Texte]

move to a fixed-rate system, somehow, that would improve the policies. That remains to be demonstrated, as far as I am concerned.

Mr. Warner: Where there is economic co-operation with regard to policy, such as the European Community, it becomes feasible. They can consider that sort of scenario because there is a mechanism in place for economic co-operation. Perhaps in theory—and we will probably not reach the day this becomes reality for many years—if you had international economic co-operation as to policy, perhaps involving giving up a little bit of economic sovereignty, it would most likely be possible to have stable rates and have a fixed-rate system with a review process in an adequate time period. Do you concur?

Mr. Crow: If you had all the other mechanisms in place for economic transfers across the regions of this monetary union, that would mean bringing in fiscal policy as well as monetary policy and exchange rates, and a number of the other issues that we referred to earlier in discussion of unemployment rates in regions.

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Mr. Warner: Thank you very much. We may have this conversation again in the future.

Mr. Dorin: I would just like to raise one subject, and I am not sure whether you either are prepared to or have any comments to make about it. It was raised indirectly by Mr. Cassidy when he talked about regional disparities and the possibility that the free trade agreement might take away some fiscal capacity to deal with them.

I come from a different point of view. I think that one of the reasons for the regional disparities, as you have mentioned yourself to some degree, is a certain rigidity or stickiness in markets, labour markets and movement, and that one of the advantages of the free trade agreement is that in my view it will reduce some of that rigidity, because there will be other alternatives.

I am sure the free trade agreement must be of interest to you. What impact would this have on the Canadian economy, as well as your own situation perhaps in terms of monetary policy? You must have at least considered the matter, have you? Do you have anything to say, and are you prepared to say it?

Mr. Crow: Oh, yes, Mr. Dorin.

Mr. Dorin: If you are prepared to talk about it, then I may ask you some more questions.

Mr. Crow: That is an offer I cannot refuse, Mr. Dorin. Please ask me some more questions. Maybe I should in fact talk about it. The only area I feel I can competently deal with in public on such a broad question is the issue of monetary policy and free trade, and what I have to say

[Traduction]

j'insisterais plutôt que de mettre en place un système de taux fixes pour améliorer les politiques; personnellement, j'estime que l'efficacité de cette solution reste à prouver.

M. Warner: Lorsque certains pays, comme ceux de la Communauté européenne coopèrent sur le plan de la politique, cela devient possible. Ils peuvent envisager ce type de scénario, car ils ont un mécanisme de coopération économique qui est déjà en place. En théorie peut-être, il faudra probablement attendre de nombreuses années pour que cela devienne une réalité, avec un système de coopération économique internationale sur le plan de la politique, un système qui supposerait que les pays cèdent une petite partie de leur souveraineté économique, il serait probablement possible de stabiliser les taux, de mettre en place un système de taux fixes avec un processus de révision périodique. Est-ce que vous êtes d'accord?

M. Crow: Si tous les autres mécanismes de transfert économique étaient en place dans toutes les régions participant à cette union monétaire, cela impliquerait les politiques fiscales en plus des politiques monétaires et des taux de change, et un certain nombre de domaines dont nous avons discuté tout à l'heure à propos des taux de chômage dans les régions.

M. Warner: Merci beaucoup. Nous reprendrons peut-être cette conversation une autre fois.

M. Dorin: J'ai une seule question à soulever, je ne sais d'ailleurs pas si vous avez des observations à ce sujet ou si vous accepterez d'en parler. C'est un sujet qui a été soulevé indirectement par M. Cassidy quand il a parlé des disparités régionales et quand il a dit que l'entente de libre-échange risquait de nous priver d'outils fiscaux pour y faire face.

J'aborde le problème d'un autre point de vue; une des causes de ces disparités régionales, comme vous l'avez dit vous-même dans une certaine mesure, tient à une certaine rigidité ou raideur des marchés, marchés du travail, entre autres, et un des avantages de l'accord de libre-échange, c'est qu'il attaquera cette rigidité en offrant de nouvelles possibilités.

Je suis certain que l'accord de libre-échange doit vous intéresser particulièrement. Quels en seront les effets sur l'économie canadienne et également sur votre situation et sur la politique monétaire? Vous avez dû certainement réfléchir à la question? Avez-vous quelque chose à dire, acceptez-vous d'en parler?

M. Crow: Oh, certainement, monsieur Dorin.

M. Dorin: Si vous acceptez d'en parler, je vais vous poser quelques questions.

M. Crow: C'est une offre que je ne peux pas refuser, monsieur Dorin. Je vous en prie, posez-moi des questions. Mais peut-être devrais-je commencer par certaines observations. Le seul domaine que je puisse traiter avec une certaine compétence en public, c'est la question de la

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is less than many people think there is to say about that, I must say.

There really is not any very direct relationship at all between free trade, as we all generally understand it, and monetary policy. There is no restriction that stems from free trade on the exercise of monetary policy, on our country's ability to manage its monetary affairs in an intelligent way. There are no particular relationships of the exchange rate that are preordained by free trade, nor should there be, because we are talking about very different areas of economic policy.

Some people seem to think there has to be some relationship between the Canadian dollar and the U.S. dollar that comes out of free trade, and the fact is there is not. We will still have the responsibility for our own monetary policy, as we will for our own fiscal policy in the large, and we will still have to make the best job we can with the tools at our disposal in those areas, and free trade will not change that situation.

Mr. Dorin: I can appreciate that there is no direct relationship perhaps in terms of monetary policy, but I mean trade flows affect currency flows, obviously, which obviously have something to do with exchange rates. To my mind, no economic analysis from anywhere, by anyone, has concluded that it would be negative for the economy. I am not aware of any anyway. Every study that I know of, from C.D. Howe Research Institute to the Economic Council of Canada, and all of... There are arguments as to the degree of benefit or whatever, and range, but I am not aware of anyone that concluded overall in the negative.

So I guess if we could assume to whatever degree there was an increased economic performance or economic benefits due to reduction in consumer prices and increased activity, whatever, that would presumably be good for the Canadian economy. It seems to me that may cause some impact on the value of the Canadian dollar vis-à-vis the United States.

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As you said earlier, one of the things about the floating exchange rates is that there is that mechanism of exchange rates to iron out differences of economic performance. Now, that being the case, I would presume that there may be some impact one way or the other, positive or negative. Do you have an opinion on that?

Mr. Crow: Maybe I should explain why it is very difficult to have a preconceived notion of what will happen to the exchange rate, if anything or very much. In fact I do not think a great deal will happen; we are not talking about the difference between night and day. A change in real economic conditions is what free trade is

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politique monétaire et du libre-échange, et je dois reconnaître que j'ai moins à dire sur cette question que la plupart des gens.

En fait, il n'y a pas vraiment de relation directe entre le libre-échange, comme nous l'entendons tous, et la politique monétaire. Le libre-échange n'impose pas de restriction à l'exercice d'une politique monétaire, à la possibilité pour notre pays de gérer ses propres affaires monétaires d'une façon intelligente. Il n'y a pas de lien particulier entre les taux de change, qui sont fonction du libre-échange, et c'est normal, car il s'agit de secteurs très différents de la politique économique.

Il y a des gens qui pensent qu'il y a forcément un lien entre le dollar canadien et le dollar américain, et que ce lien est fonction du libre-échange: en réalité, ce n'est pas le cas. Nous continuerons à assumer la responsabilité de notre propre politique monétaire, tout comme nous assumerons la responsabilité de notre politique fiscale; nous continuerons à faire notre possible avec les outils dont nous disposons dans ces secteurs, et le libre-échange n'y changera rien.

M. Dorin: Je comprends qu'il n'existe pas de relation directe dans le cas de la politique monétaire, mais on ne saurait nier que les mouvements commerciaux affectent les mouvements de la monnaie, qui, de leur côté, ont quelque chose à voir avec les taux de change. Aucune analyse économique n'a jamais conclu, du moins je ne le crois pas, que cela aurait des effets négatifs sur l'économie. En tout cas, je n'en connais pas. Toutes les études que j'ai pu voir, qu'elles aient été préparées par l'Institut de recherche C.D. Howe ou le Conseil économique du Canada et... On n'est pas d'accord sur l'importance des avantages, sur la portée de l'entente, mais que je sache, personne n'a conclu que dans l'ensemble c'était négatif.

Par conséquent, si nous pouvions prévoir une augmentation de la performance économique ou une augmentation des avantages économiques grâce à une réduction des prix à la consommation et à une augmentation de l'activité, ce serait une bonne nouvelle pour l'économie canadienne. Il me semble que cela risque d'avoir un certain impact sur la valeur du dollar canadien par rapport au dollar américain.

Comme vous l'avez dit tout à l'heure, un désavantage du taux flottant, c'est qu'il offre un mécanisme qui permet de minimiser les différences de performance économique. Dans ces conditions, j'imagine qu'il faut s'attendre à un impact, positif ou négatif. Avez-vous une opinion à ce sujet?

M. Crow: Peut-être devrais-je expliquer pourquoi il est très difficile de prévoir comment le taux de change réagira, que ce soit brutal ou imperceptible. En fait, je pense qu'il ne se passera pas grand-chose. Ce ne sera pas le jour ou la nuit. En réalité, le libre-échange modifie les conditions économiques réelles. Si l'on ne s'attendait pas

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about. If one did not think it was going to change the world for the better one would not do it, and that is relevant to balance of payments and exchange rates and everything else.

I do not want to speak for the United States, but presumably the United States thought it was a good idea to have free trade. So did the Government of Canada. Both countries can stand to gain from free trade, according to the basic principles of economics. But if both countries gain, what is going to happen to the exchange rate between them? The answer is indeterminate. It does not necessarily go one way or the other. It depends on the process of adjustment. I guess there are relative gains.

We start off I think, on balance, with higher tariffs than the U.S., and that could be relevant to what will happen in terms of prices and in terms of trade. But it seems to me that a lot in the free trade agreement goes beyond tariffs. Some of the major obstacles to trade these days are not tariffs. They are non-tariff barriers, and that area is much more difficult to quantify.

So fundamentally the answer is indeterminate until one goes through the particular elements of the agreement. I think in some areas you would guess rather than estimate the non-tariff barriers. It is very difficult to put a number on the kinds of investments that will take place. One can believe that a lot more investment will take place in industries which will benefit strongly, as many will, from free trade. Over what time period that will take place and how that will be financed are also relevant from the point of view of the performance, the balance of payments, and the currency.

I can agree to all that, but at the same time I think I can also comfortably say that it is not a major issue for monetary policy in the broad sense, although it is relevant to monetary policy, like every economic and financial development is relevant to monetary policy.

Mr. Dorin: Presumably the same comments would apply vis-à-vis interest rates as well. There have been some comments about the difference in interest rates between the two countries.

Mr. Crow: If we do indeed generate a good inflation performance in this country, that will do more than anything else to bring down interest rates, in my view. If the United States also has a good performance, that will help them. I think that is about all one can say.

Mr. Dorin: You say more than tariffs are involved in the free trade agreement. There are some impacts in terms of the banking sector, the ability of banks to do business on a reciprocal basis in each other's country. Right now the Canadian banks are quite active in the United States,

[Traduction]

à une amélioration de la situation, on n'en prendrait pas la peine, et cela a une incidence sur la balance des paiements et les taux de change, entre autres.

Je ne veux pas parler pour les États-Unis, mais j'imagine que là-bas on a dû penser que c'était une bonne idée. C'est également ce qu'a pensé le gouvernement du Canada. Les deux pays ont beaucoup à gagner au libre-échange si l'on se fonde sur les principes économiques fondamentaux. Mais si les deux pays gagnent, que deviendra le taux de change entre eux? La réponse n'est pas nette. Elle ne va pas forcément dans un sens ou dans l'autre, elle dépend du processus d'ajustement, et je pense qu'il faut prévoir des gains relatifs.

Dans l'ensemble, je pense qu'au départ nous avons des tarifs douaniers plus élevés que les États-Unis, un fait qui pourrait déterminer l'évolution des prix et du commerce. Mais à mon avis, dans une large mesure, l'entente de libre-échange va bien au-delà des tarifs. Les tarifs douaniers sont loin d'être le principal obstacle commercial à l'heure actuelle. Les plus gros obstacles sont non tarifaires et, dans ce domaine, il est beaucoup plus difficile de quantifier.

Fondamentalement donc, il est impossible de préciser la réponse avant de passer par les divers éléments de l'accord. Dans certains cas, les barrières non tarifaires doivent être devinées plutôt qu'évaluées. Il est très difficile de traduire les investissements futurs en chiffres. On peut s'attendre à de nombreux investissements nouveaux dans les industries qui profiteront nettement du libre-échange, et il y en a beaucoup. Combien de temps faudra-t-il pour assister à un changement, quelles seront les sources de financement, autant de questions qui intéressent la performance, la balance des paiements et la monnaie.

Dans tous ces cas, je suis d'accord, mais en même temps, je crois pouvoir dire sans hésitation que ce n'est pas un problème majeur pour la politique monétaire, bien qu'un lien existe tout comme il existe un lien entre les développements économique et financier et la politique monétaire.

M. Dorin: J'imagine que ces observations s'appliquent autant au taux d'intérêt. On a parlé de la différence entre les taux d'intérêt des deux pays.

M. Crow: Effectivement, si nous réussissons bien à contrôler l'inflation dans ce pays, c'est ce qui sera le plus utile pour faire baisser les taux d'intérêt. Si les États-Unis aussi obtiennent de bons résultats, leur situation sera améliorée d'autant. C'est à peu près tout ce qu'on peut en dire.

M. Dorin: Vous dites que les tarifs douaniers ne sont pas les seuls éléments de l'entente de libre-échange. Le secteur bancaire, les possibilités d'échange entre les banques des deux pays sont également en cause. À l'heure actuelle, les banques canadiennes sont très actives aux

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the major ones anyway. From this point of view, do you foresee any impact on your operations, monetary or otherwise?

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Mr. Crow: No, not really Mr. Dorin. There will be some different institutions here that might be of different size from what they would have been in the absence of the free trade agreement. As you know, there are some provisions for U.S.-based deposit-taking institutions vis-à-vis Canada.

The essential point for our control is that we are able to control the supply of the balances that banks in Canada, including foreign-owned as well as Canadian-owned banks, need to settle their accounts between them. We do control this and we do not see such control being diminished in any way by the fact that foreign banks are here.

Perhaps I might expand a bit on this question from another angle; I think there is another side that influences many people's thinking. I think somehow there is a Canadian financial system that is very separate from the international financial system and they behave in very different ways.

The fact of the matter is that the world financial system is very integrated these days. Borrowing and lending by Canadians takes place outside our border to an important extent, as it does for every other major industrial country.

Notwithstanding these major flows of funds, we are able to control our own destiny with regard to monetary policy and the control of monetary expansion in the Canadian economy. These arrangements for the financial services under free trade do not affect it any more than does the fact that the Canadian economy is an open economy in terms of international financial flows and has always been.

M. Garneau: Monsieur le gouverneur, je voudrais revenir à la question de la politique de taux d'intérêt de la Banque du Canada. Évidemment, c'est la responsabilité de la Banque du Canada.

Au cours des derniers mois, la politique que vous avez suivie a amené des taux d'intérêts sensiblement différents de ceux des États-Unis ainsi que l'appréciation du dollar canadien. Est-ce que c'est une conséquence des consensus dégagés au Groupe des sept en vue d'essayer de stabiliser davantage la devise monétaire américaine?

M. Crow: Franchement, la réponse est non, monsieur Garneau. La politique monétaire suivie par le Canada est surtout élaborée dans l'intérêt du Canada, et non dans l'intérêt des États-Unis. On peut espérer que nos efforts pour collaborer entre nous aboutiront à une uniformité globale de la politique monétaire financière, dans l'intérêt

[Translation]

États-Unis, les grandes, en tout cas. En prévoyez-vous des répercussions sur vos opérations, monétaires ou autres?

M. Crow: Pas vraiment, monsieur Dorin. Il y a peut-être certains établissements ici dont la taille sera différente de ce qu'elle aurait été n'eût été l'accord sur le libre-échange. Comme vous le savez, il y a certaines dispositions, au niveau du Canada, pour les établissements bancaires d'origine américaine qui acceptent les dépôts ici.

L'essentiel, au niveau de notre contrôle, c'est qu'il nous revienne de décider quelle réserve les banques faisant affaire au Canada doivent entretenir afin de régler leurs comptes entre eux, qu'il s'agisse de banques étrangères ou canadiennes. C'est nous qui en décidons, pour l'heure, et nous ne croyons pas que cela change du simple fait de la présence de banques étrangères dans nos frontières.

Encore un mot d'un autre point de vue: il y a autre chose qui influence la pensée des gens. Je crois qu'il existe un réseau financier canadien qui est tout à fait distinct du réseau financier international et l'on retrouve des comportements très différents au sein de ces deux réseaux.

En vérité, le réseau financier international est très intégré aujourd'hui. Les Canadiens empruntent et prêtent à l'extérieur de nos frontières et c'est une part importante de leur activité, comme c'est le cas pour tout autre grand pays industrialisé.

Nonobstant ces mouvements importants de capitaux, nous réussissons à être les maîtres de notre propre destinée pour ce qui est de la politique monétaire et de l'expansion monétaire de notre économie canadienne. Les accords conclus en matière de services financiers au niveau du libre-échange n'altèrent en rien cette situation, non plus que le fait que l'économie canadienne soit une économie ouverte au niveau des mouvements internationaux de capitaux, comme cela a toujours été le cas d'ailleurs.

Mr. Garneau: Governor, I would like to get back to the question of the Bank of Canada's interest rate policy. Of course, that is the purview of the Bank of Canada.

During the last few months, the policy you have followed has meant interest rates that are quite different from those practiced in the U.S.A., as well as an increase in the Canadian dollar. Is that a consequence of the consensus emanating from the Group of Seven with a view to trying to further stabilize the American dollar?

Mr. Crow: Frankly, the answer is no, Mr. Garneau. The monetary policy followed by Canada is based on Canada's interests and not on the U.S.A.'s. It can be hoped that our efforts at co-operation will bring about world-wide uniformity of financial monetary policy, in the interests of the world economy, but, in the last

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de l'économie globale, mais en fin de compte, nous avons la responsabilité de gérer la politique monétaire dans le meilleur intérêt des Canadiens.

M. Garneau: Je ne dis pas que vous avez pris des décisions contraires aux intérêts du Canada. Mais les faits sont là. Le ministre des Finances nous a dit que le Canada jouait un rôle important au niveau du Groupe des sept. Vous nous avez dit vous-même que la Banque du Canada participe à titre consultatif ou même, à l'occasion, aux réunions des ministres du Groupe des sept. Les journaux ont rapporté à plusieurs reprises les difficultés que créait, pour l'économie internationale, la volatilité de la valeur du dollar américain.

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Au cours des dernières années, on a vu une baisse du dollar américain par rapport aux monnaies d'un groupe de pays. Selon les statistiques publiées par la *Revue de la Banque du Canada* ou celle du ministère des Finances, au cours des 15 dernières années, il y a eu un cycle important de variations de la valeur du dollar américain par rapport à un panier de dix monnaies. Tout à coup, au début des années 80, il y a eu une dépréciation et la politique américaine a fait grimper la valeur du dollar.

M. Crow: Des montagnes russes, pourrait-on dire.

M. Garneau: C'est cela, des montagnes russes. Alors, je regarde les faits et je constate que les propos des ministres des Finances des pays industrialisés et les préoccupations de M. Baker ont entraîné des consultations plus fréquentes dans le Groupe des sept. Le ministre nous dit qu'il y a participé. Je n'y vois pas d'objections et je n'essaie pas de vous faire dire que vous travaillez contre l'intérêt du Canada, mais je constate qu'à la suite de ces réunions, la politique de la Banque du Canada a été de maintenir un taux d'intérêt relativement élevé, ce qui a eu comme conséquence de faire augmenter la valeur du dollar canadien. Cela correspond aux souhaits exprimés à maintes reprises par M. Baker. Est-ce une coïncidence ou il s'agit le résultat du consensus qui se dégage au Groupe des sept?

M. Crow: Je dois dire très clairement que je n'ai jamais demandé à un responsable de la politique économique ou financière aux États-Unis si notre politique monétaire ou le taux de change plaisait aux Américains.

Lors de ces réunions du Groupe des sept, il y a des échanges de points de vue, de renseignements. On veut s'assurer qu'on envisage autant que possible les mêmes scénarios, le même panorama pour les mois suivants, mais on ne cède pas notre autorité en ce qui concerne la mise en oeuvre de nos politiques intérieures.

Je vais revenir à la question que vous avez soulevée concernant le comportement du dollar canadien par rapport au dollar américain. Comme je l'ai signalé au début de cette séance, on peut regarder le comportement du dollar canadien de deux façons: du côté bilatéral, par

[Traduction]

analysis, we are responsible for managing monetary policy in the best interests of Canadians.

Mr. Garneau: I am not saying that you have made any decision contrary to Canada's interests. But the facts remain. The Minister of Finance has told us that Canada plays an important role in the Group of Seven. You have told us yourself that the Bank of Canada is involved, on a consultation basis or sometimes even directly, in the meetings of the ministers making up the Group of Seven. The media have often reported on the problems the volatility of the American dollar's value has meant for the international economy.

During the last few years the American dollar has lost a lot of ground relative to the currencies of a group of countries. According to the statistics published in the *Bank of Canada Review* or the Department of Finance's review, during the last 15 years, there has been an cycle of quite wide variations in the value of the American dollar as compared to a basket of 10 currencies. All of a sudden, at the beginning of the 1980s, depreciation occurred and the effective American policy led to an increase in the value of the dollar.

Mr. Crow: A rollercoaster, you might say.

Mr. Garneau: That is it, a rollercoaster. So when I look at the facts I see that the statements made by the Ministers of Finance of the industrialized countries and the concerns of Mr. Baker have led to far more frequent consultation within the Group of Seven. The Minister has told us that he has participated in discussions. I have no objection to that, and I am not trying to get you to say that you are working against Canada's own interests, but I do notice that after these meetings the policy of the Bank of Canada has been to maintain a relatively high rate of interest and the consequence of that was to increase the value of the Canadian dollar. That happens to coincide with the wishes that Mr. Baker has expressed quite frequently. Is this mere coincidence or is it the result of the consensus reached by the Group of Seven?

Mr. Crow: I must say quite clearly that I have never asked anyone responsible for the financial or economic policy of the United States of America if our monetary policy or our exchange rate was pleasing to the Americans.

During these Group of Seven meetings, there is an exchange of points of view and of information. One wants to ensure that one is, insofar as possible, looking at the same scenarios and the same panorama for coming months but one does not yield one's authority over the implementation of one's internal policies.

I would like to get back to the question you raised concerning the performance of the Canadian dollar as compared to the American dollar. As I said at the beginning of this meeting, we can look at the performance of the Canadian dollar in two ways: on the bilateral side

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rapport au dollar américain et, comme vous l'avez fait vous-même, par rapport à un panier de monnaies. Si on le regarde par rapport à un panier de monnaies, on n'a pas la même impression quant à son comportement. Par rapport au panier, pendant 1987, le dollar canadien n'a eu aucune tendance. Je crois que c'est pertinent à la discussion.

M. Garneau: Je comprends, mais nous faisons 75 p. 100 de notre commerce international avec les États-Unis. Je n'essaie pas de vous blâmer, mais plutôt de voir où est la vérité, car la coïncidence existe bel et bien.

Comme question supplémentaire, est-ce une bonne chose pour l'économie mondiale? M. Baker a souvent exprimé sa préoccupation quant au déficit commercial américain vis-à-vis du Canada. Il a fait à maintes reprises des déclarations publiques pour demander un peu d'aide, disant qu'autrement, il devrait prendre des mesures plus strictes pour corriger ce déséquilibre de la balance commerciale.

• 1120

On voit que la politique que vous suivez coïncide avec les préoccupations maintes fois exprimées par M. Baker, à savoir qu'une des façons de corriger la balance commerciale déficitaire américaine vis-à-vis du Canada est d'avoir un dollar canadien à la hausse, donc remplacer la compétitivité des deux économies, favoriser davantage les exportations américaines vers le Canada et corriger cette balance-là.

Je ne veux rien critiquer, car c'est peut-être une bonne chose sur le plan international, mais je regarde les faits et je me dis que cela a dû être accepté quelque part. Est-ce par l'opération du Saint-Esprit ou si c'est à la suite d'un consensus qui s'est dégagé au Groupe des sept, ce que je pourrais comprendre? Je regarde cela et je me dis: M. Baker demande que le dollar canadien augmente et le dollar canadien augmente; donc, cela a dû être décidé quelque part, probablement au Groupe des sept. C'était la question bien simple que je vous posais et vous, vous me dites que non, que c'est tout simplement dans le meilleur intérêt du Canada que vous favorisez des taux d'intérêt plus élevés qui favorisent la hausse du dollar et diminuent jusqu'à un certain point notre compétitivité sur notre principal marché. C'est la constatation que je fais en regardant les faits.

M. Crow: Je crois que vous précisez un peu trop mes observations, monsieur Garneau.

M. Garneau: Il ne s'agit aucunement de ce que vous avez dit. Je regarde tout simplement les faits! Vous dites que c'est le hasard.

M. Crow: Oui. Vous avez supposé que j'ai sous-entendu des choses dans ce que j'ai dit. Peut-être que je ne l'ai pas dit, mais je vais le dire maintenant: on n'a pas de cible pour le dollar canadien. Le comportement du dollar canadien—on peut le regarder de différentes façons et il a des aspects différents selon la mesure—est pertinent dans

[Translation]

as compared to the American dollar and, as you have done yourself, as compared to a basket of currencies. If you compare it to a currency basket, you do not get the same impression as to its performance. Relative to the basket, for 1987, the Canadian dollar did not move. I think that is quite germane to this discussion.

Mr. Garneau: I understand that, but 75% of our international trade involves the U.S.A. I am not trying to blame you in any way, I am just trying to find where the truth lies, because that coincidence does exist, just the same.

As a supplementary question, is it good for the world economy? Mr. Baker has often expressed his concern about the American trade deficit with Canada. He has often made public statements to ask for a bit of help and say that, otherwise, he would have to take far more drastic steps to correct this unbalanced trade deficit.

It can be seen that the policy you have followed coincides with Mr. Baker's oft-expressed concerns, which are that one of the ways to correct the American's trade balance deficit with Canada is to have a higher Canadian dollar and, in effect, realign the competitiveness of both economies by further promoting American exports towards Canada with a view to correcting that imbalance.

I do not want to criticize, because this may be a good thing, internationally speaking, but just looking at the facts, I tell myself someone must have accepted this. Did it come about through the operation of the Holy Ghost or did it simply follow the consensus arrived at by the Group of Seven, which is something I could understand? When I look at that, I figure: Mr. Baker wants the Canadian dollar to go up, and the Canadian dollar goes up; so the decision must have been made somewhere, probably by the Group of Seven. That was the very simple question I was putting to you and you tell me that, no, it is simply in the best interests of Canada that you are promoting higher interest rates, which encourage an increase in the dollar's value and, to a certain extent, decrease our competitiveness on our main market. That is the conclusion I come to when I look at the facts.

Mr. Crow: I think that you are putting a few extra words into my mouth, Mr. Garneau.

Mr. Garneau: This has nothing to do with what you have said. I am simply going by the facts! You say it is mere coincidence.

Mr. Crow: Yes. You simply imagine that I implied certain things by my statements. Maybe I did not say it in so many words, but I will say it clearly now: we have no target value for the Canadian dollar. The performance of the Canadian dollar, and you can look at that in different ways, there are different aspects depending on the

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la mise en oeuvre de la politique financière générale au pays. C'est une chose qu'on ne peut pas ignorer, mais je ne peux pas dire que je suis d'accord avec vous pour laisser entendre qu'on essaie de pousser le dollar canadien dans une certaine direction pour satisfaire aux besoins de M. Baker, par exemple.

Ma dernière observation à cet égard est qu'il y a un marché pour les devises. On regarde la situation de la balance commerciale déficitaire des États-Unis et le marché réagit. D'un autre côté, on regarde la performance des Allemands ou des Japonais en ce qui concerne la balance commerciale, et le marché réagit là aussi de même qu'ici. Donc, il y a un processus d'ajustement dans le monde. Il est possible de suivre des politiques internes favorisant un ajustement plus ou moins équilibré si on le peut, et on parle beaucoup de cela aux réunions du Groupe des sept. Il y a un paragraphe sur l'orientation des politiques de chaque pays membre du Groupe des sept.

Au Canada, en va suivre la politique suivante. Je regrette infiniment, mais je n'ai que la version anglaise:

Monetary policy remains geared to non-inflationary growth in a climate of orderly exchange markets.

Il s'agit de l'engagement du Canada au Groupe des sept.

M. Garneau: Il est dommage que je ne puisse pas continuer à parler indéfiniment des faits que je constate. Je voudrais poser deux dernières questions.

• 1125

Revenons d'abord au Groupe des sept. Si je posais la même question aux gouverneurs des banques nationales de France et d'Allemagne et aux gens de la *Federal Reserve* aux États-Unis, ils me répondraient sans doute que leur politique monétaire est décidée au niveau national, personne ne voulant admettre qu'un instrument de souveraineté politique aussi important puisse être cédé. Cela dit, si c'était le cas, à quoi servirait le Groupe des sept, et jusqu'à quel point? Est-ce un cas d'osmose? Est-ce que les gens écoutent les conversations que vous tenez autour de la table et prennent leur décision individuellement, ou si le Groupe des sept, quand il se réunit, en arrive à un consensus qui influence véritablement les politiques monétaires de chacun des gouverneurs des banques nationales?

M. Crow: Je ne peux pas répondre au nom des autres gouverneurs, monsieur Garneau. Il y a un échange de points de vue, de renseignements. On regarde le panorama, on se met d'accord sur un communiqué et on essaie de résumer les attitudes des gouvernements qui assistent à la réunion. On est toujours en contact. Pour ma part, je participe régulièrement à des réunions à Bâle avec mes collègues, les gouverneurs des banques centrales. On discute de l'évolution des politiques et c'est très, très utile. Peut-être pourra-t-on un jour aller plus loin dans la direction voulue par M. Warner, soit un monde plus

[Traduction]

measure chosen, is germane to the implementation of our country's general financial policy. That is something we cannot ignore, but I cannot say that I agree with you when you say that we are trying to push the Canadian dollar in a certain direction to please Mr. Baker, for example.

My last comment on this is that there is a market for currencies. People see the U.S.A.'s trade balance deficit and the market reacts to that. On the other hand, you look at the performance of the German or Japanese trade balance and the market reacts to that also. So there is a world-wide give and take. It is possible to adopt internal policy that encourages more or less balanced adjustment, if you can, and there is a lot of talk about that during Group of Seven meetings. There is a paragraph on the policy trends of each member country of the Group of Seven.

In Canada, this is our policy. I am awfully sorry, I only have the English version:

Monetary policy remains geared to non-inflationary growth in a climate of orderly exchange markets.

That is Canada's commitment to the Group of Seven.

Mr. Garneau: It is too bad that I could not just go on indefinitely about the facts as I see them. I have two last questions.

Let us go back to the Group of Seven. If I asked the same question of the governors of the national banks of France and Germany and of the people at the U.S. Federal Reserve, they would say that their monetary policy is determined at the national level, because no one will admit that such an important instrument of political sovereignty is being abandoned. If such were the case, what would there be left for the Group of Seven to do? Do these people listen to your conversations and then take decisions individually, or does the Group of Seven during its meetings arrive at a consensus which has a real inference on the monetary policies of each of the governors of the national banks?

Mr. Crow: I cannot speak for the other governors, Mr. Garneau. There is an exchange of views and of information. We agree on a communiqué which expresses the attitudes of the participating governments. We are in constant contact. For my part, I regularly attend the meetings of the governors of central banks held in Basle. We discuss policies, and that is very, very useful. Maybe one day we will be able to have a more integrated monetary policy, as Mr. Warner suggested, but we are not there yet.

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intégré en ce qui concerne la monnaie, mais on n'est pas encore là.

M. Garneau: Non, je ne pense pas qu'on parvienne à établir une devise monétaire internationale au cours des prochaines années.

Je reviens toujours à mes questions du début sur la politique monétaire, parce que c'est un point important. De ce côté-ci de la table, on n'a pas à faire de budget, ni à établir de politique fiscale. On a à les critiquer et peut-être à proposer des solutions de rechange. Cependant, dans notre cadre de réflexion, après avoir entendu ce que vous avez dit depuis le début, je crois comprendre que la préoccupation première de la Banque du Canada et de son gouverneur est l'inflation, la possibilité d'une reprise inflationniste. Dans ce contexte-là, votre attitude est de conserver un contrôle serré de la devise, ce qui peut provoquer une légère hausse des taux d'intérêts. On ne peut certainement pas s'attendre à des baisses de taux qui correspondraient à une politique à moyen terme. Même si vous ne pouvez pas le dire, on doit conclure, devant les chiffres et devant votre attitude, que les Canadiens, l'industrie canadienne et le gouvernement canadien ne peuvent pas s'attendre à ce que la Banque du Canada favorise une baisse des taux d'intérêt au cours des prochains mois. C'est ce que je retiens de vos propos. Est-ce que je suis complètement dans l'erreur ou si je n'ai pas le droit d'interpréter vos propos?

M. Crow: Je ne peux pas répondre à votre question aussi concrètement que vous le désirez, monsieur Garneau. Franchement, je ne veux pas, je ne peux pas et je ne dois pas faire des prévisions concernant les taux d'intérêt.

Quant au taux de change, ce n'est pas un objectif de notre politique. C'est pertinent, mais ce n'est pas un objectif. L'objectif de base est la stabilité des prix intérieurs au pays.

Nous regardons de très près l'évolution de l'inflation au Canada, et nous souhaitons que l'inflation accuse une tendance à la baisse plutôt qu'à la hausse à l'avenir. Nous croyons que c'est le moyen le plus sûr d'obtenir des taux d'intérêt peu élevés.

• 1130

Le vice-président: Monsieur Langdon.

Mr. Langdon: There were three issues I wanted to explore with you. The first is a question that has come up with me. I want to put the question to you with the least possible inflammatory implications.

Mr. Crow: How about none?

Mr. Langdon: I will try none. Fundamentally, who is responsible for monetary policy in this country? Who is ultimately responsible for the direction of decision-making with respect to the monetary policy factors you have been talking about this morning, such as the importance attached to the rate of inflation, the rate of interest, the value of the Canadian dollar? Is that you as

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Mr. Garneau: I do not expect an international currency within the next few years.

I can't get past my question about monetary policy, because this is a very important point. On this side of the table we do not write the budget nor establish fiscal policy. We are supposed to criticize policies and offer different options. Do I take it from what you said that the main concern of the Bank of Canada and of its governor is still the danger of rising inflation? In order to avert this danger, your main tool is tight control of the Canadian dollar, with the risk of nudging interest rates upward. So we should not expect a decrease in interest rates in the short term. Even though you are not saying so yourself, figures tell us that we should not expect the Bank of Canada to promote lower interest in the coming months. Is that a correct interpretation of what you have just said?

Mr. Crow: I am not in a position to answer you as completely as you might have wished, Mr. Garneau. I cannot, will not and must not make any forecasts as to interest rates.

The exchange rate, though, is not one of our policy objects, even though it is relevant. Our basic objective is to ensure price stability in Canada.

We are monitoring the rate of inflation very closely in Canada and we hope that in future inflation will have a tendency to fall rather than rise. That is the best way to lower interest rates.

The Vice-Chairman: Mr. Langdon.

M. Langdon: Il y a trois questions que je voudrais aborder avec vous et je vais essayer de le faire de façon aussi nette que possible.

M. Crow: Tant mieux.

M. Langdon: Je voudrais donc savoir qui est en dernier ressort le premier responsable de notre politique monétaire et notamment des questions touchant au taux d'inflation, au taux d'intérêt et à la parité de notre devise. Est-ce le gouverneur de la Banque du Canada, est-ce le gouverneur de la Banque du Canada de concert avec le ministre des Finances ou bien est-ce le gouvernement lui-

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the Governor of the Bank? Is it you in consultation with the Minister of Finance? Or is it ultimately, in the final analysis, as I would have thought the coin affair demonstrated definitively, the government that is ultimately responsible for monetary policy?

Mr. Crow: It is very clear from the Bank of Canada Act, Mr. Langdon, that the Government of Canada has ultimate responsibility for the monetary policy pursuit in Canada, and there are provisions in the Bank of Canada Act to ensure that is very clear.

Mr. Langdon: It is very good to have that put clearly on the record.

May I also ask, in respect to that, if in addition to the clear points in the Bank of Canada Act there is a process of consultation of a more informal sort that takes place between you, as the Governor of the Bank, and the government with respect to these issues?

Mr. Crow: Yes, Mr. Langdon, there is a procedure for consultation, which is earlier in the act than this. What it says here—

Mr. Langdon: Unless it listed perhaps, Mr. Crow, in what it says, rather than in the process by which it actually operates.

Mr. Crow: What it says is a very clear description of the process:

The Minister and the Governor shall consult regularly on monetary policy and on its relation to general economic policy.

I and the Minister consult regularly, pursuant to that provision of the Bank of Canada Act.

Mr. Langdon: So any suggestion that, for instance, the Bank of Canada itself is independent in shaping monetary policy, or setting such things as interest rates, would be a mis-statement of the facts.

Mr. Crow: I am not sure; there are so many negatives in your question, Mr. Langdon. I am not sure whether I said yes or no. I still do not know whether I gave the right answer. I will make a statement.

• 1135

According to the act, the Bank of Canada has the responsibility for the formulation and conduct of monetary policy in the absence of a directive from the Minister, which has to be approved by the Cabinet. Such a directive would have to be specific and would have to be for a limited period and would have to be published forthwith. That directive would not be issued, according to the act, unless there had been further consultations between the governor and the Minister on the course of monetary policy in addition to the regular consultations.

Mr. Langdon: But the regular consultations, if I understand their nature correctly, would also give

[Traduction]

même qui est responsable de notre politique monétaire comme semble l'indiquer l'affaire de la pièce de monnaie?

M. Crow: Aux termes de la Loi sur la Banque du Canada, c'est le gouvernement du Canada qui est en dernière analyse chargé de déterminer la politique monétaire du pays, les dispositions de ladite loi ne laissant aucun doute à ce sujet.

M. Langdon: Je vous remercie de cette précision.

Outre donc ces dispositions de la Banque du Canada, y a-t-il des consultations officieuses entre le gouverneur de la Banque centrale et le gouvernement relatives à toutes ces questions?

M. Crow: Effectivement des consultations sont prévues dans la loi.

M. Langdon: La loi ne précise pas les modalités de fonctionnement.

M. Crow: Au contraire la loi est parfaitement claire:

Le ministre et le gouverneur doivent se consulter périodiquement relativement à la politique monétaire et aux répercussions de cette dernière sur la politique économique générale.

Donc comme le prévoit la loi, je consulte périodiquement le ministre sur toutes ces questions.

M. Langdon: Donc il est faux de dire que la Banque du Canada est libre de fixer la politique monétaire ou les taux d'intérêt en toute indépendance?

M. Crow: Votre question est à tel point emberlificotée que je ne suis pas sûr d'y avoir bien répondu. Permettez-moi donc de faire une mise au point.

Aux termes de la loi, la Banque du Canada est chargée d'élaborer et d'appliquer la politique monétaire en l'absence de directives du ministre, politique monétaire qui doit être approuvée par le Cabinet. Les directives doivent être précises, valables pour une durée limitée et elles doivent être rendues publiques immédiatement. Toujours d'après la loi, les directives ne sont publiées qu'à l'issue de consultations spéciales entre le gouverneur et le ministre relativement à la politique monétaire, ces consultations spéciales venant en sus des consultations régulières.

M. Langdon: Mais mêmes ces consultations régulières permettent au gouvernement d'influer sur les décisions du

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considerable influence to the government in offering direction insofar as it is done informally with respect to these monetary policy issues.

Mr. Crow: What it says is that we shall consult regularly. But of course if "consultation" meant, in subsection 14.(1), that the governor would go to receive directions from the Minister then there would be no necessity for subsections 14.(2) and (3), which provide for directive power. So I think it is very clear—and that is the way it has always been interpreted—that the consultation is consultation, not going to receive instructions. That is the way I have conducted it—and they are very constructive consultations—and that is the way Ministers have seen it over the years, I understand. I have only dealt with one Minister so I cannot really generalize, but certainly my conversations with Mr. Bouey would indicate that has been the situation, and that is what is consistent with the provisions of the act as everybody has interpreted them from the beginning.

Mr. Langdon: But, as you say, because of that power of directive and the fact that the power of directive lies there at any time consultations are taking place, the ultimate responsibility does rest with the government itself.

Mr. Crow: Oh, yes, because the government can always issue a directive.

Mr. Langdon: On a second but related topic, the trade deal, on which you offered some extremely cautious comments earlier, I must say that as we crossed the country prior to Christmas receiving input from a great many people—not nearly as many as we would have liked to have seen, but from a fair number of people—one of the constant questions that came up was at what level of the exchange rate a particular industry would start to lose its export markets within the United States.

You have said that the potential outcome of the impact on exchange rates is indeterminate. Do I take that as saying that it is certainly possible that one could see a significant increase in the value of the Canadian dollar vis-à-vis the American dollar as a consequence of the trade deal going through? That is a possible outcome.

• 1140

Mr. Crow: In general terms, it is possible it could happen both ways. If, as I said it is, it is indeterminate, there could be.

But I think one has to take the question a bit further. One has to ask one's self, Mr. Langdon, under what conditions might there be an increase in the Canadian dollar because of free trade. There are many other things going on in the world economy, the Canadian economy, and the U.S. economy that could affect the Canadian dollar, but let us just isolate free trade as one single element. In hypothesis we can ascribe something in the exchange market to free trade, which is kind of a big concept. Why would that happen?

[Translation]

gouverneur de la Banque centrale en matière de politique monétaire.

M. Crow: Les consultations doivent en principe avoir lieu périodiquement. Si par consultation l'alinéa 14.(1) voulait dire que le ministre donnerait des directives au gouverneur de la Banque, les alinéas 14.(2) et (3) qui touchent justement aux directives n'ont plus leur raison d'être. Il est donc tout à fait évident que c'est ainsi que la loi a toujours été interprétée, consultation signifie simplement consultation et non pas instruction. C'est ainsi que la loi a toujours été interprétée aussi bien en ce qui concerne les gouverneurs de la Banque centrale que les différents ministres. Personnellement je n'ai eu à faire qu'à un seul ministre, je ne peux donc pas généraliser; mais d'après mes entretiens avec M. Bouey à ce sujet, c'est ainsi que les choses se passaient également de son temps car c'est de cette façon que la loi a toujours été interprétée.

M. Langdon: Mais vous avez dit vous-même qu'en dernière analyse c'est le gouvernement qui est responsable de notre politique monétaire, justement parce que c'est le gouvernement qui est habilité à émettre des directives.

M. Crow: Oui, en effet, le gouvernement est toujours libre d'émettre une directive.

M. Langdon: En ce qui concerne l'accord de libre-échange au sujet duquel vous vous êtes exprimé avec une extrême circonspection, une des questions qui revenait le plus souvent lors de notre tournée à travers le pays juste avant les vacances de Noël, c'était la question de savoir à quel niveau du taux de change telle ou telle industrie canadienne commencerait à perdre des débouchés aux États-Unis.

Vous avez dit vous-même qu'il est impossible de prévoir les répercussions de cet accord sur les taux de change. Dois-je donc en conclure que l'accord de libre-échange pourrait entraîner la renchérissement du dollar canadien par rapport au dollar américain? Ce serait un des effets possibles.

M. Crow: Les taux de change pourraient fluctuer dans un sens comme dans l'autre.

La question est de savoir dans quelles conditions l'accord de libre-échange entraînerait une hausse de la valeur du dollar canadien par rapport au dollar américain. La parité du dollar dépend entre autres de la conjoncture internationale ainsi que de la situation économique au Canada et aux États-Unis, mais nous pouvons chercher à déterminer les effets éventuels du seul accord de libre-échange. Mais pourquoi le libre-échange devrait-il se répercuter sur les taux de change?

[Texte]

Mr. Langdon: Excuse me, Mr. Crow, the trade deal, which is different from free trade.

Mr. Crow: I did not want to be inflammatory, Mr. Langdon.

Why would that happen? The only way I could see it happen as a clear result is there were major gains to the Canadian economy out of free trade. People saw export markets opening up, major investments to supply those markets. That would have an effect upon the Canadian dollar, presumably, among other things. In other words, there were sizeable real gains, economic gains, realized from free trade, and the exchange market would, as it reacts to everything, react to that and bid up the Canadian dollar. I think the important point is there is something real behind it.

Mr. Langdon: What could be real behind it, if we are talking about what is most likely to be real that would cause this, is the flows of foreign currency into the country, foreign capital for investment purposes. If that flow of foreign currency, for example, as it historically has, is concentrated in central Canada, the consequence could be a bidding up of the exchange rate and a consequent difficulty with respect to competitiveness of exports from periphery parts of the country to the United States market.

Mr. Crow: I think what you are supposing, Mr. Langdon, is a static situation. When one talks about opening up barriers to trade or reducing barriers to trade, one is talking about a dynamic situation where change will happen. I do not think one can assume that all the change will be bad change. The peripheries may have some good changes.

Mr. Langdon: You have suggested that it is a static situation. I positive it is not a static situation but a change which would comprise investment flows into central Canada. That was the real phenomenon that took place which led to a rise in the exchange rate. The exports of raw material products from outlying parts of the country, depending on the degree of the exchange rate change, would certainly face higher prices in their competition with the United States. Is that not correct?

Mr. Crow: I am not sure it is correct, Mr. Langdon. What you are supposing is that the only investment that takes place takes place in the centre of the country. I think you are assuming what you want to prove.

Mr. Langdon: Well, let us see if the scenario which I suggested might take place. Do you agree that is one of a number of scenarios that might take place?

Mr. Crow: I think it is also the case that the studies have not demonstrated that the only gains from free trade would occur in central Canada.

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Mr. Langdon: Such studies as have taken place have indicated that the greatest gains would in fact take place

[Traduction]

M. Langdon: Je vous ferai remarquer que l'accord conclut avec les États-Unis n'est pas l'équivalent du principe de libre-échange.

M. Crow: D'accord.

Ce n'est que si l'économie canadienne enregistrait un essor important grâce à l'accord de libre-échange que ce dernier se traduirait par une hausse de notre devise. En effet si nous remportons d'importants marchés à l'exportation avec les investissements que cela exigeraient, le dollar canadien pourrait augmenter en valeur. Si donc l'accord de libre-échange se soldait par de véritables échanges commerciaux chiffrables, cela se répercuterait sur les marchés des changes qui pousseraient le dollar canadien à la hausse. Mais il faudrait pour cela qu'il y ait des résultats tangibles.

M. Langdon: A mon avis, on devrait tous s'attendre à un accroissement du flux de capitaux étrangers que l'on viendrait investir au Canada. Si ces capitaux étaient essentiellement investis dans le centre du Canada comme cela s'est toujours fait, cela entraînerait une hausse du dollar canadien, hausse qui aurait pour conséquence d'affaiblir la compétitivité des exportations du reste du pays sur le marché américain.

M. Crow: Vous parlez d'une situation statique monsieur Langdon. Or toute suppression d'obstacles au commerce suppose une situation dynamique et non pas statique. Je ne vois donc pas pourquoi l'évolution serait uniquement négative. Les régions périphériques du pays pourraient elles aussi en bénéficier.

M. Langdon: Loin d'être une situation statique, l'accord de libre-échange entraînera un flux de capitaux vers le centre du Canada ce qui par le passé déjà a entraîné une hausse dans le taux de change. Si cela devait arriver, nos exportations de matière première provenant des régions reculées du pays verraient leur compétitivité baisser sur le marché américain.

M. Crow: Ce n'est pas certain, monsieur Langdon. Vous affirmez que ces nouveaux investissements se feront uniquement dans le centre du Canada, ce qui est loin d'être prouvé.

M. Langdon: Mais vous conviendrez que c'est quand même une possibilité.

M. Crow: Rien ne prouve que seul le centre du Canada bénéficierait de l'accord de libre-échange.

M. Langdon: D'après toutes les études effectuées, c'est l'Ontario qui serait le gros bénéficiaire de cet accord,

[Text]

in Ontario and that the disparities between Ontario and other parts of the country would therefore increase. Is this part of the mechanism by which this would happen?

Mr. Crow: This is getting into territory that I do not really feel competent to analyse in terms of the probability calculus and the locus of gains by industry by region. I think about your question, though, was: if the gains were differential, what would be the implication for monetary policy? I think that is where I come in, if I can put it this way. Is that correct?

Mr. Langdon: Not really. What I was looking at is this. If there were an increase in the exchange rate, as you posited was a possibility, and it was a significant increase that came about because of investment flows, as has historically been the case, into central Canada, could that have the effect of turning the terms of trade against periphery parts of the country? That is the point I was making.

I think we have probably gone as far as we can with respect to the suppositions on both sides. I simply make the point to indicate that, taking your own framework of analysis, I think it is as easy to raise critical questions with respect to this deal as it is to come up with the sanguine conclusions you expressed earlier to Mr. Dorin.

Mr. Crow: Mr. Langdon, I think your issue is interesting, the way you put it, but I think it is more a hypothesis than a well-researched study.

Mr. Langdon: I put it as a hypothesis, Mr. Crow, quite clearly.

Mr. Cassidy: Mr. Chairman, I will try to make my questions fairly direct. My first question is supplementary to the one Steven Langdon asked. We raised this when you were appointed, but now you have been in the job for a year so it might be worth while raising again. If you got a directive from the Minister of Finance and from the government with respect to the conduct of monetary policy, what would you do?

Mr. Crow: Like my predecessors, as I have said, I would resign.

Mr. Cassidy: So when you say the government is ultimately accountable, you, like your predecessors, are in fact prepared to do everything possible to make it impossible for the government to exercise that responsibility. Is that correct?

Mr. Crow: That is not correct, Mr. Cassidy. I would resign so that the government could have someone as governor who shared their view as to how monetary policy should be operated.

The bank does have a measure of independence. The question Mr. Langdon posed was: whereas the ultimate authority for monetary policy—and it is very clear in the act—rests with the government and, of course, with Parliament—it is a parliamentary act that governs the Bank of Canada—until a directive is issued, the Bank of

[Translation]

creusant ainsi davantage encore le fossé qui sépare l'Ontario du reste du pays. C'est bien ainsi que cela se ferait?

M. Crow: Je ne suis pas vraiment bien placé pour vous parler des avantages éventuels de tel ou tel secteur par région. Si j'ai bien compris vous voudriez que je vous dise quels seraient les effets au plan de la politique monétaire d'une répartition inégale des avantages du libre-échange.

M. Langdon: Non ce n'est pas ça ma question. Si on enregistre une hausse importante du taux de change imputable aux nouveaux investissements qui se concentreraient comme par le passé essentiellement au centre du pays, est-ce que cela ne risque pas de se faire aux dépens des régions périphériques du pays?

Mais tout ceci est effectivement pure hypothèse. Je tenais simplement à vous faire remarquer que l'accord sur le libre-échange peut tout aussi valablement donner lieu à une vision pessimiste des choses qu'à une vision optimiste qui semble être la vôtre d'après ce que vous avez dit à M. Dorin.

M. Crow: Ce que vous dites même si c'est intéressant est purement hypothétique.

M. Langdon: Il s'agit effectivement d'une hypothèse, monsieur Crow.

M. Cassidy: Je vais tenter, monsieur le président, de poser des questions directes, et ma première question se rattache directement à celle posée par mon collègue M. Langdon. Nous vous avons déjà posé la question au moment de votre nomination et je vous la pose à nouveau maintenant que vous occupez votre poste depuis déjà un an. Que feriez-vous si le ministre des Finances ou le gouvernement vous adressait une directive sur la façon dont vous menez la politique monétaire?

M. Crow: Je présenterais ma démission comme l'auraient d'ailleurs fait mes prédécesseurs.

M. Cassidy: Donc même si vous prétendez qu'en dernière analyse c'est le gouvernement qui est responsable de la politique monétaire du pays, vous êtes néanmoins décidé à tout faire pour empêcher le gouvernement de remplir ses responsabilités.

M. Crow: C'est tout à fait faux, monsieur Cassidy. Je présenterais ma démission afin que le gouvernement puisse me remplacer par une personne qui serait entièrement d'accord avec lui sur la façon de mener la politique monétaire.

La banque centrale dispose d'une certaine indépendance. Même si aux termes de la Loi sur la Banque du Canada, c'est le gouvernement et le Parlement qui sont en dernier ressort responsables de la politique monétaire du Canada, la banque centrale et son gouverneur en particulier sont chargés d'élaborer et de

[Texte]

Canada, the governor in particular, is responsible for the formulation and conduct of monetary policy. I think the question you are getting at is: why should there be any independence at all, even that measure that exists before a directive?

I think one has to go back to questions of the relationship between the kinds of policies pursued. It is not uncommon to central banks to have that measure of independence, and many people believe it is valuable. It does not detract from the ultimate power of the government. There are provisions for regular consultations between the government and the Minister to discuss monetary policy. It does not talk about discussing fiscal policy in relation to general economic policy; it talks about discussing monetary policy in relation to general economic policy, and that is what we do.

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The bank has to have a kind of a separation in terms of decisions between the power to spend money and to tax and to run deficits, if you wish, and the power to create money, which is monetary policy. That separation line exists, and experience has shown it to be a valuable separation line.

Mr. Cassidy: I think that the consequence that arises from that, though, is that it becomes next to impossible for a government elected to office to enunciate and put into force a monetary policy at odds with the views of the current governor of the Bank of Canada. The cost of the governor phoning his fellow governors and telling them he is leaving because he does not trust these guys and cannot accept their directive is an extremely high one. It is not impossible but it is an extremely high cost, which that position you have taken suggests. The position you take is vastly different from that of every deputy minister. Deputy ministers will occasionally resign if they feel that the proposals by a government or a Minister are flagrantly unwise or unjust. But they nonetheless have a responsibility, which they fulfill, to discern from the government of the day its wishes and to seek to carry those out.

Between that position, which would be unnecessarily constraining on the governor and the bank, and your position, there is a wide area where it seems you rule out any possibility for a government to enunciate and then to put into force its rules of monetary policy.

Mr. Crow: I do not see that quite the same way, Mr. Cassidy. I think it is unfortunate that you speak of trust as if a governor would not trust a Minister. I think that is quite inappropriate language. The situation is one where there is a clear-cut difference, a fundamental difference of view, about how policy should be conducted. That is not a question of trust; that is a question of opinion.

[Traduction]

mener la politique monétaire. En fait vous mettez en cause la mesure d'indépendance dont bénéficient actuellement la Banque du Canada et son gouverneur.

Je pense que cela met en cause les rapports entre les diverses politiques pratiquées. La plupart des banques centrales d'ailleurs disposent d'une certaine indépendance, indépendance qui peut présenter certains avantages et qui ne retirent d'ailleurs rien au pouvoir du gouvernement. Des consultations périodiques sont en effet prévues entre le gouverneur de la banque et le ministre pour discuter de la politique monétaire. Il ne s'agit pas de traiter de la politique financière en rapport avec la politique économique générale, mais de la politique monétaire, et c'est cela que nous faisons.

La banque est obligée de distinguer entre le pouvoir de dépenser, d'imposer et d'accumuler des déficits, si vous voulez, et celui de créer de la monnaie, ce dernier élément constituant la politique monétaire. Cette distinction existe et l'expérience prouve qu'il est bon de la faire.

M. Cassidy: La conséquence qui en découle, cependant, est qu'il est pratiquement impossible à un gouvernement mandaté par le peuple d'énoncer et d'appliquer une politique monétaire qui soit contraire aux vues du gouverneur de la Banque du Canada en place. Le coût qui résulte d'un appel téléphonique du gouverneur à ses homologues étrangers leur disant qu'il s'en va parce qu'il ne peut pas faire confiance à son gouvernement et refuse de se plier à ses directives est extrêmement élevé. Ce n'est pas impossible, mais le coût en est extrêmement élevé, vu la position que vous avez prise. Elle diffère considérablement de celle de tous les sous-ministres. Il arrive que ceux-ci démissionnent si les projets du gouvernement ou d'un ministre leur paraissent carrément déraisonnables ou injustes. Mais ils ont néanmoins l'obligation, et ils s'en acquittent, de déterminer les vœux du gouvernement du moment et de chercher à les satisfaire.

Entre cette position, qui serait inutilement contraignante pour le gouverneur et la Banque, et la vôtre, il existe une très grande marge car vous semblez exclure toute possibilité pour le gouvernement d'énoncer et de suivre une politique monétaire qui lui soit propre.

M. Crow: Je ne vois pas les choses tout à fait de cette façon, monsieur Cassidy. Je trouve regrettable que vous parliez de confiance, comme si un gouverneur pourrait ne pas faire confiance à un ministre. Je trouve le terme tout à fait inapproprié. Vous parlez plutôt d'une situation où il y aurait une divergence d'opinion très claire, une opposition de vue fondamentale, sur la politique à suivre. Ce n'est pas une question de confiance, c'est une affaire d'opinion.

[Text]

I dare say I can speak for all my predecessors and the present Minister when I tell you that the consultations between the governor and the Minister are very constructive and substantive. If a Minister of Finance wanted to pursue a monetary policy that was seriously at variance with mine, I think one can assume that the Minister would have thought rather carefully about it. If he has come to the conclusion that his is a much better policy to adopt, he will no doubt have talked about it with a number of other people and thought it through. And if he has managed to convince himself that this is really a superior policy, it is not clear that he would have a great deal of trouble in convincing other people that his policy is indeed superior to that which the governor has been advocating. He should get a lot of support for that policy, I would say.

Mr. Cassidy: Mr. Chairman, I would like to pursue this but the time is short. I can still see some real problems there. It is probably in the nature of consultations. If consultations are designed to arrive at a certain sharing of points of view such that the outcome is not what either participant began by thinking when he went in, if there is a mutual influencing that takes place, then I think there may be some validity in what you say, Mr. Crow. If, on the other hand, consultations are essentially to say, well, all of the knowledge is on one side and therefore basically we are going to hold to our view of monetary policy, regardless of the expertise or the judgments of the consequences in terms of the mix that we may get from the other side, now what kind of consultations do you hold to?

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The Vice-Chairman: Mr. Cassidy, again, I sense that we are going into a kind of hypothetical situation that perhaps is not fair to the committee, as we are trying to meet a deadline.

Mr. Cassidy: Then, question one: what, in the bank's views, are any changes in the economic prospects for the Canadian economy in 1988, with a specific reference to the possible impact of the crash last October and how that may affect investment, trade, economic growth, employment, inflation, etc.?

Mr. Crow: I am not sure you left anything out there, Mr. Cassidy. You did not leave out inflation, did you? No.

Monetary policy and the crash: I will start there. Monetary policy did not change with the crash, but certain of the major aspects of the economy may have changed. That is the way I would put it. The effect of the slide in stock market prices is well known. It is a reduction in net worth. People feel less well off if they are holding stocks, or institutions do. The cost of capital rises insofar as it becomes more expensive to raise money in the stock market. Now, there are alternatives to the stock market but certainly the stock market is not so attractive.

[Translation]

Je crois pouvoir parler au nom de tous mes prédécesseurs et du ministre actuel en disant que les consultations entre le gouverneur et le ministre sont très constructives et complètes. Si un ministre des Finances voulait appliquer une politique monétaire qui différerait fortement de la mienne, je ne pourrais pas supposer que le ministre y a soigneusement réfléchi. S'il est parvenu à la conclusion que sa politique est meilleure que la mienne, il en aura sans aucun doute parlé avec toutes sortes d'autres personnes et y aura réfléchi soigneusement. S'il a acquis la conviction que sa politique est réellement meilleure, je suppose qu'il n'aura pas grand mal à en convaincre d'autres et je pense qu'il bénéficiera dans ce cas d'un large appui.

M. Cassidy: Monsieur le président, j'aimerais m'attarder encore un peu là-dessus, mais le temps me manque. Je continue néanmoins à voir d'importants problèmes dans tout cela. Ils tiennent sans doute à la nature des consultations. Si les consultations sont de nature à dégager des compromis, c'est-à-dire que chaque participant cède un peu de terrain à l'autre, s'il s'y exerce une influence mutuelle, alors ce que vous dites, monsieur Crow, n'est pas sans quelque validité. Si, par contre, la consultation consiste essentiellement à dire: c'est nous qui possédons les données véritables et nous allons nous en tenir à notre vision de la politique monétaire, quels que soient les jugements portés par l'autre partie sur les conséquences qui peuvent en résulter, quelle sorte de consultation est-ce là?

Le vice-président: Monsieur Cassidy, encore une fois, je pense que vous abordez là une situation hypothétique et, vu le manque de temps, il vaudrait peut-être mieux poser des questions plus précises.

M. Cassidy: Dans ce cas, ma première question est la suivante: de l'avis de la Banque, prévoyez-vous une modification de la conjoncture économique en 1988, à la suite particulièrement du krach boursier d'octobre dernier et des répercussions qu'il pourrait avoir sur l'investissement, les échanges, la croissance économique, l'emploi, l'inflation, etc.?

M. Crow: Je crois que vous n'avez rien omis, monsieur Cassidy. Vous n'avez pas oublié de mentionner l'inflation, n'est-ce pas? Non.

La politique monétaire et le krach: commençons par là. La politique monétaire n'a pas changé depuis le krach mais certains des principaux éléments de l'économie peuvent en avoir subi des répercussions. Voilà ce que je puis dire. Les effets de l'effondrement boursier sont bien connus. Il y a la chute de valeurs du patrimoine net des actionnaires et des entreprises qui détiennent des actions. Le coût du capital augmente dans la mesure où il devient plus coûteux d'aller chercher des capitaux à la bourse. Il y a évidemment des solutions de rechange pour financer les

[Texte]

Interest rates came down sharply in the period immediately after the stock market slide. They are still lower than they were right before the stock market slide. To date, there has been little obvious impact, I would say, at least in terms of the numbers that have come out, to show a major slowing of demand in the Canadian economy. Perhaps the Canadian economy had more momentum than people thought at the time. We certainly thought it had a lot of momentum.

That being said, I think there were certain cyclical forces at work in the Canadian economy and the North American economy that would bring about a slower expansion of demand in 1988 than in 1987, whether it is ascribable to the stock market itself or to the working out of economic forces.

So I think, on balance, we will see a slower expansion of demand in 1988 than in 1987, which, as you are aware, was very fast. The expansion of demand in 1988 will be at levels which are more sustainable, more durable over the longer run.

Mr. Cassidy: Last spring in Basel you presumably took part in one of the meetings of the Bank for International Settlement. I believe you sit on the board in some way.

Mr. Crow: The Bank of Canada has shares in the BIS and I attend the meetings. I am not on the board as such, but I attend the meetings, yes.

Mr. Cassidy: The bank, in its annual report published during 1987, indicated that for the best interest of the industrialized world economy fiscal policy in trade surplus countries would need to be geared to supporting demand, while the United States should cool it because of the deficit and that kind of thing. Now, in your view, does that apply to Canada as well? After all, we are a trade surplus country. Therefore, would you be offering some advice, as you may have done through your voice in the BIS, suggesting that fiscal policy in this country was unnecessarily tight and should be loosened in order to try to prevent the world economy from plunging into renewed recession?

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Mr. Crow: I cannot say that I actually remember that sentence from the BIS report and I did not see the BIS report before it was published. As I said, I am not on the board of the BIS.

We do have a trade surplus. We do not have a current account surplus. I think when they are saying trade surplus, they probably mean current account surplus. We have a current account deficit. A short answer to your question is that I would not recommend that we use fiscal policy as a demand-boosting mechanism, from the point of view of the world economy, at this point in Canada.

[Traduction]

entreprises, mais la bourse est en tout cas devenue une option moins intéressante.

Les taux d'intérêt ont chuté brutalement juste après l'effondrement boursier. Il reste encore inférieur à ce qu'ils étaient juste avant le krach. Jusqu'à présent, celui-ci n'a encore eu guère d'effet sur les principaux indicateurs, qui ne révèlent pas de ralentissement sensible de la demande dans l'économie canadienne. Peut-être celle-ci possédait-elle davantage d'élan qu'on ne le pensait à l'époque mais, pour notre part, nous lui trouvions beaucoup de dynamisme.

Cela étant dit, je pense qu'un certain nombre de forces cycliques étaient à l'oeuvre dans l'économie canadienne et nord-américaine qui poussaient dans le sens d'un ralentissement de la croissance de la demande en 1988 par rapport à 1987, que ces forces soient attribuables à la bourse elle-même ou à d'autres tendances économiques.

Je pense donc, tout bien pesé, que nous connaissons une croissance plus lente en 1988 qu'en 1987, année où, comme vous le savez, elle était très forte. L'accroissement de la demande en 1988 se situera à des niveaux qui pourront être plus facilement soutenus à long terme.

M. Cassidy: Vous avez sans doute participé à l'une des réunions du printemps, à Bahl, de la Banque des règlements internationaux. Je crois même que vous siégiez à son conseil d'administration.

M. Crow: La Banque du Canada possède des actions de la BRI et j'assiste aux réunions de son conseil. Je n'en suis pas membre mais j'y assiste, oui.

M. Cassidy: La Banque, dans son rapport annuel, publié en 1987, indiquait que, dans l'intérêt de l'économie du monde industrialisé, les pays possédant une balance commerciale excédentaire devraient pratiquer une politique financière propre à stimuler la demande, alors que les États-Unis devraient chercher à la tempérer en raison de son déficit commercial. À votre avis, cela s'applique-t-il également au Canada? Après tout, nous sommes un pays à balance commerciale excédentaire. Est-ce que vous êtes donc d'avis, ainsi que vous nous l'avez peut-être indiqué par votre voix au sein de la BRI, que la politique financière est inutilement restrictive et devrait être assouplie afin d'éviter que l'économie mondiale ne replonge dans la récession?

M. Crow: Je ne peux pas dire que je me souviens de cette phrase du rapport de la banque et je n'en ai pas eu connaissance avant qu'il soit publié. Ainsi que je l'ai dit, je ne suis pas membre du conseil de la BRI.

Nous avons un excédent commercial mais nous n'avons pas d'excédent de notre balance des paiements. Lorsqu'ils parlent d'excédents de la balance commerciale, il faut probablement entendre celle des paiements. La nôtre est déficitaire. Pour vous répondre de manière concise, je ne recommanderai pas d'utiliser la politique financière comme moyen de gonfler la demande au Canada dans l'intérêt de l'économie mondiale.

[Text]

Mrs. Collins: I would like to get some things clear in my mind in terms of our policy. As I understand it the policy of the Bank of Canada is that the priority is price stability and therefore low inflation. That is a number one priority.

Mr. Crow: That is truncating it a bit. You start from this question: how can monetary policy best serve the economy? Will it serve the economy well by promoting inflation? The answer is no. Will it serve the economy better by promoting price stability? The answer is yes. From that process you come to the conclusion that monetary policy indeed should aim at price stability.

Mrs. Collins: That becomes the number one priority. You talk in your paper about the predictability of interest rates, and obviously that is important. However, when you have to choose between the two, you go on the side of maintaining low rates of inflation. Is that usually what happens?

Mr. Crow: In a way. I would not want to let other policies off the hook here. I think other policies have a responsibility and, as Mr. Cassidy was saying in another context, one can have better or worse mixes of policy, but that is another question.

Monetary policy does have a responsibility for the value of the nation's money and money that people can trust. I come back to the question of interest rates. If we can generate the trust and expectations that money will maintain its value, you will find interest rates will come down. I see the link to interest rates through monetary policy.

Mrs. Collins: My assumption has been that our interest rates are generally higher than the U.S. interest rates so that we can attract foreign investment. It also means we attract foreign indebtedness as well. Is that a conscious policy? How does it sort of tie in with the two basic parameters? If U.S. interest rates were to go to a level that we did not think really served our needs, what would we do?

Mr. Crow: I think you have to look at what is driving U.S. interest rates. For example, in the past U.S. interest rates have been driven up by rapid increases in fiscal deficits, demands on savings in the U.S. economy and in the world economy. The U.S. is by far the largest capital market, and that will drive up real rates of interest around the world: short rates, long rates, medium rates.

• 1205

It would be very difficult for Canada to avoid that impact of real rates of interest. If the U.S. interest rates are rising because the U.S. has developed a severe bout of inflation, for example, and therefore people are running for cover in terms of the rates at which they want to lend money because they do not want to lose their shirts in a situation where they see the price level rising rapidly, the

[Translation]

Mme Collins: J'aimerais préciser un certain nombre de choses concernant notre politique. Si je comprends bien, la politique de la Banque du Canada consiste à donner la priorité à la stabilité des prix, et donc à la lutte contre l'inflation. Voilà notre première priorité.

M. Crow: C'est un peu trop schématique. Il faut partir de la question suivante: Quelle politique monétaire sert le mieux les intérêts de notre économie? Est-ce bon pour l'économie de promouvoir l'inflation? La réponse est non. Est-ce meilleur pour l'économie de promouvoir la stabilité des prix? La réponse est oui. A partir de là, on en vient à la conclusion que la politique monétaire doit effectivement viser la stabilité des prix.

Mme Collins: Cela devient donc notre priorité. Vous dites dans votre document que les taux d'intérêt doivent être prévisibles et c'est manifestement une chose importante. Cependant, s'il faut choisir entre les deux, vous privilégiez la lutte contre l'inflation. Est-ce là votre position?

M. Crow: D'une certaine façon. Il ne faut certainement pas négliger non plus les autres politiques. Je pense que les autres politiques ont un rôle à jouer et, ainsi que M. Cassidy le disait dans un autre contexte, la combinaison des politiques suivies peut être plus ou moins bonne, mais cela est une autre question.

La politique monétaire influe sur le cours de la monnaie nationale et la confiance qu'on lui porte. J'en reviens à la question des taux d'intérêt. Si l'on crée la confiance et persuade le public que notre monnaie conservera sa valeur, les taux d'intérêt diminueront automatiquement. C'est par le biais de la politique monétaire qu'il y a un lien avec les taux d'intérêt.

Mme Collins: Je pensais que nos taux d'intérêt étaient généralement supérieurs à ceux des États-Unis dans le but d'attirer les investissements étrangers. Cela signifie également que nous attirons les dettes étrangères. Est-ce une décision consciente? Comment la rattacher aux deux paramètres fondamentaux? Si les taux d'intérêt américains grimpaient à un niveau qui ne réponde pas vraiment à nos propres conditions, que ferions-nous?

M. Crow: Il faudrait regarder ce qui pousse les taux d'intérêt américains à la hausse. Par exemple par le passé, ce sont les déficits budgétaires qui les ont fait grimper, la ponction opérée dans l'épargne américaine et mondiale. Les États-Unis sont de loin le plus gros marché financier et cela suffit à faire grimper les taux d'intérêt partout dans le monde, qu'il s'agisse de crédits à court, moyen ou long terme.

Il sera très difficile pour le Canada d'éviter cet impact des taux d'intérêt réels. Si les taux américains grimpaient en raison d'une forte poussée inflationniste, par exemple, amenant les prêteurs à exiger des taux plus élevés parce qu'ils ne voudraient pas perdre leur chemise en cas de flambée des prix, la réaction au Canada dépendrait de nos perspectives d'échapper à cette poussée inflationniste. La

[Texte]

extent to which there would be any reaction in Canada would depend upon what confidence people had that we would not share that bout of inflation. The answer then to the question is that we would try to see that we brought about a better performance of interest rates in Canada than the U.S. was unfortunate to be subject to.

It does require confidence in inflation performance to do that, because financial markets depend upon expectations. They link expectations to the real world, I would say, in terms of production and employment.

Mrs. Collins: So if circumstances in the U.S. economy were quite a bit different or factors were affecting them that were not affecting our economy, there are circumstances in which our interest rates could be lowered.

Mr. Crow: Yes.

Mrs. Collins: What would be the impact if we took a determined policy to have them low? Some people argue that we should go that way because that would potentially increase economic performance and in the long term could decrease our foreign indebtedness, if we see that as a problem down the line. What do you see as being the implications of such a policy?

Mr. Crow: The credibility with which the policy was viewed would depend upon the circumstances. If it was thought this meant that one was determined to generate high inflation, for example, or that was an unfortunate but inevitable consequence of such a policy, then one would of course see people run for cover. In the process they would tend to bid up interest rates rather than keep them down. There would be a continual fight between the desire on the part of authorities to keep interest rates down and the problems in the market of maintaining credibility in the course of financial policy. So it would be very difficult.

Mrs. Collins: Is there a factor in all of this that is not necessarily objective but is sort of what you are talking about: credibility, how people perceive your ability to manage things?

Mr. Crow: It is very important. In fact, the paper you have in front of you that we circulated earlier... Because of the importance, we decided we would present a little case study of that, the experience the Bank of Canada faced in the middle of 1984, which is spelled out in some detail in the annual report for that year that was published at the beginning of 1985. It is a very good illustration of the very real problems you have in trying to manage financial conditions in a world that sometimes gets jittery and uncertain and to supply the kind of assurance to that world, in a measured way, that enables you to come out in a reasonable place in terms of financial conditions.

Mrs. Collins: So that could lead, I guess, to a consideration that dramatic changes of policy or even less-

[Traduction]

réponse à votre question est que nous chercherons donc à conserver des taux d'intérêt au Canada qui soient inférieurs à ceux dont souffriraient les États-Unis.

Cela suppose que les agents économiques aient confiance en notre capacité future à modérer l'inflation, car les marchés financiers anticipent toujours. Leur anticipation influence ainsi le monde réel, sur le plan de la production et de l'emploi.

Mme Collins: Si donc le comportement de l'économie américaine différerait sensiblement du nôtre, si des facteurs y sont à l'oeuvre qui n'existent pas chez nous, on pourrait envisager que nos taux d'intérêt soient inférieurs aux leurs.

M. Crow: Oui.

Mme Collins: Que résulterait-il d'une politique volontariste de réduction du taux d'intérêt? Certains arguent que nous devrions emprunter cette voie car la performance de notre économie y gagnerait et que nous pourrions à long terme réduire notre endettement vis-à-vis de l'étranger, si celui-ci risque de devenir un problème à l'avenir. Quelles seraient les répercussions d'une telle politique?

M. Crow: La crédibilité de cette politique dépendrait des circonstances. Si les acteurs économiques pensaient que nous voulons laisser filer l'inflation, par exemple, ou que celle-ci serait une conséquence regrettable mais inévitable d'une telle politique, tout le monde courrait se mettre à l'abri et l'on verrait les taux d'intérêt grimper plutôt que de diminuer. Il y aurait contradiction permanente entre, d'une part la volonté des autorités de maintenir les taux d'intérêt à un bas niveau et l'obligation de garder crédible, sur le marché financier notre politique financière. Ce serait extrêmement difficile.

Mme Collins: N'est-il pas dans tout ceci un facteur qui n'est pas vraiment objectif mais relève plutôt de ce dont vous parlez, la crédibilité, la manière dont les gens perçoivent votre capacité à gérer l'économie?

M. Crow: C'est très important. D'ailleurs le document que nous avons distribué... Étant donné l'importance de cette question, nous avons décidé de faire une petite étude de cas là-dessus, sur l'expérience que la Banque du Canada a faite au milieu de l'année 1984, et qui est décrite de façon assez détaillée dans le rapport annuel de cette année, qui fut publié au début de 1985. C'est une très bonne illustration de la difficulté à gérer la situation financière dans un monde qui connaît des accès de frayeur, à donner de façon modérée les assurances nécessaires qui permettent de s'en sortir de façon raisonnable sur le plan financier.

Mme Collins: Cela signifie donc que des changements de cap plutôt ou moins marqués de la politique peuvent

[Text]

dramatic changes of policy might have impacts greater than they really should have because they would perhaps signal a sense of jitters.

Mr. Crow: One has to prepare the ground for changes in policy. Financial markets do not like surprises, and one has to be careful to explain the policy and its implications in a way that seems credible to financial markets. Otherwise, one can get a surprise oneself. I think I am agreeing with you, but just saying it in a different way.

• 1210

Mrs. Collins: I was at a meeting on international economic issues over Christmas of parliamentarians from around the Pacific Rim. Certainly one of the issues that came out at that meeting was the need for some changes in some of the major countries. I mean, with Japan it is more of a protectionist issue, but with respect to West Germany, their sort of slavish dedication to maintaining low rates of inflation is one of the factors in creating some of the economic disparities around the world.

I wonder, first of all, if you might agree, or whether you can say anything about that, and secondly, what kinds of mechanisms there are through your level to have some impact on those kinds of policies in other countries.

Mr. Crow: Well, "slavish" is a strong word, Mrs. Collins.

Mrs. Collins: [Inaudible—Editor]

Mr. Crow: I do not; just to make that point. I do not think the problems Germany may be facing are ones of too much regard for price stability. There may be some structural concerns in Germany that need attending. I think Europe in general has been grateful to Germany for providing an anchor of stability in a world where some centres are not as wedded to the ideas that perhaps the Germans are. The Germans have produced a very prosperous economy over the years.

Mrs. Collins: So you disagree with it, basically.

Mr. Crow: Basically, yes—not slavishly but basically.

Mrs. Collins: Yes, basically. And the other issue, in terms of the whole problem of the Third World loans, I know there is a lot of attention being paid to that, and I guess from what I have heard there is a sense that it has to be cleaned up, because the longer it goes on, it really is having an adverse impact on everyone's ability to produce and sell and develop the potential of some of those markets.

Now, the zero coupon bond proposal for Mexico, I understand, has been interesting. I do not know how well it has been accepted. Again, I just wondered what other approaches you may have considered through the Bank of Canada, or through the international organizations you

[Translation]

entraîner des bouleversements disproportionnés parce qu'ils seraient interprétés comme des signaux de peur.

M. Crow: Il faut soigneusement préparer le terrain avant de changer la politique. Le marché financier n'aime pas les surprises et il faut bien veiller à exprimer la politique et ses implications, d'une manière qui paraisse crédible aux marchés financiers. Autrement, on risque d'avoir une surprise soi-même. Je pense que nous sommes d'accord, mais nous exprimons les choses de façons différentes.

Mme Collins: J'ai assisté pendant la période de Noël à une conférence de parlementaires des pays du Pacifique sur les problèmes économiques internationaux. L'une des choses qui en est ressortie est que certains des grands pays doivent opérer des changements. Dans le cas du Japon, le problème est surtout le protectionnisme mais dans le cas de l'Allemagne de l'ouest, son adhésion servile au maintien d'un faible taux d'inflation est l'un des facteurs qui engendre des disparités économiques dans le monde.

J'aimerais savoir tout d'abord si vous êtes d'accord et si vous pouvez nous parler de cela et, deuxièmement, quel sorte de mécanisme il existe à votre niveau pour peser sur la politique économique des pays étrangers.

M. Crow: Eh bien, le «servile» est un peu fort, madame Collins.

Mme Collins: [Inaudible—Éditeur]

M. Crow: Non, je veux simplement faire ressortir cela. Je ne pense pas que les problèmes que l'Allemagne peut connaître soient dus à un attachement excessif à la stabilité des prix. Il peut y avoir des problèmes structurels en Allemagne auxquels il faut chercher une solution. Je pense que l'Europe, en général, est reconnaissante à l'Allemagne d'être un havre de stabilité dans un monde qui n'a pas toujours la prudence des Allemands. Or, ceux-ci bénéficient d'une économie extrêmement prospère depuis longtemps.

Mme Collins: Vous êtes donc fondamentalement en désaccord avec cette thèse?

M. Crow: Fondamentalement, oui... Pas servilement mais fondamentalement.

Mme Collins: Oui, fondamentalement. L'autre problème c'est toute cette question de la dette du Tiers monde. Je sais que l'on en parle beaucoup et, d'après ce que j'ai entendu, tout le monde reconnaît qu'il faut trouver une solution, car plus on laisse traîner cette situation et plus elle nuit à la possibilité de tout le monde d'accroître sa production, de trouver des débouchés et d'exploiter certains de ces marchés.

La solution que l'on vient de trouver pour le Mexique est ingénieuse, mais je ne sais pas trop quel accueil elle a reçu. Encore une fois, je me demande quelles autres options vous, à la Banque du Canada ou dans les organisations internationales auxquelles vous participez,

[Texte]

are involved in, and again, how important you see that and what Canada should be doing to assist in resolving that issue.

Mr. Crow: Well, we are always actively discussing the particular and the general in this regard, discussing the Mexican zero coupon bond proposal, for example, discussing more broadly at other forums the debt situation.

I recognize that there is a desire, a desire which naturally I share myself, for some kind of definitive solution to this problem that is hanging over so many aspects of the function of the world economy. I think the issue, when you come to thinking of real definitive solutions, is deciding how the costs are going to be sorted out, and that is not an easy question.

The lenders are in different positions economically. The borrowing countries have different economic performances and different prospects. One talks sometimes about general forgiveness. Well, who pays for general forgiveness is a very interesting question, and of course there is a moral hazard involved there, insofar as some countries have tried harder than others to work out of their problem.

The approach we have is a co-operative approach. It is case by case, and because of that, it looks messy. But it is case by case within the framework of adjustment, of attention to growth, attention to improving economic structure.

Additional funds have been supplied to the international bank for reconstruction and development—the World Bank, that is—and to its soft-loan affiliate to provide more capital in a focused way to debtor countries.

• 1215

Banks have taken additional provisions, which have affected their performance. There have been a number of things that have happened to ease the situation, and I think we are making slow progress in managing it, but it is a very long and difficult process, and we can all agree, I think, that we would rather be somewhere else than in the middle of this situation. Unfortunately, that is where we are, and we try to find the most intelligent routes working at the various aspects of what is a many-sided problem to manage it and to improve it. I really do not see a big-bang solution—put it that way—very clearly.

Mrs. Collins: There may be something between that. . . because I think a lot of people feel it is going too slowly, which I guess leads me to my final comment. This again me out of this meeting.

Mr. Ghazali, as the former foreign minister of Malaysia, has been putting forward for a number of years the contention that the Bretton Woods Agreement and the financial institutions set up at that time are no longer adequate to deal with the current world economy and the tremendous changes that have taken place, and the World

[Traduction]

avez envisagées, quelle est l'importance de ce problème à vos yeux et ce que le Canada pourrait faire pour contribuer à sa solution.

M. Crow: Eh bien, nous discutons activement du particulier et du général à cet égard, du mécanisme des obligations sans intérêt proposé par le Mexique et du problème général de la dette du Tiers monde dans divers forums.

Je reconnais que l'on souhaite, et je partage ce désir, de trouver une solution définitive à ce problème qui affecte tellement d'aspects de l'économie mondiale. La véritable difficulté, si l'on y réfléchit, c'est de décider comment répartir le coût de la solution, et ce n'est pas facile.

Les pays créanciers se trouvent dans des situations économiques différentes. Les pays débiteurs eux aussi ont des résultats et des perspectives économiques différents. On parle parfois d'effacer entièrement l'ardoise. Mais qui va payer cette ardoise? C'est une question très intéressante et il y a là également un risque moral en ce sens que certains pays se sont efforcés davantage que d'autres de sortir du trou.

L'approche suivie jusqu'à présent est de nature coopérative. On tranche au cas par cas et, de ce fait, la solution ne paraît pas très nette. On avance pas à pas en tentant d'opérer des ajustements, de ne pas casser la croissance, d'améliorer la structure économique.

Des crédits supplémentaires ont été mis à la disposition de la Banque internationale pour la reconstruction et le développement—la Banque mondiale, si vous voulez—dans le but d'offrir davantage de capitaux ponctuels aux pays débiteurs.

Les banques ont fait davantage de provisions pour pertes qui ont affecté leur bilan. Toutes sortes de mesures ont été prises pour améliorer la situation et je pense que nous commençons à voir un peu de lumière au bout du tunnel, mais c'est un processus long et difficile. Tout le monde, en tout cas, reconnaît qu'il faut tâcher d'en sortir. Malheureusement, nous sommes plongés dans cette situation et nous essayons de trouver les façons les plus intelligentes de régler ce problème qui comporte maintes facettes. Je ne vois pas de solution miracle, disons les choses ainsi.

Mme Collins: Il y a peut-être quelque chose entre les deux. . . Je pense que beaucoup de gens trouvent que l'on ne fait pas assez et cela m'amène à ma dernière question qui, elle aussi, m'a été inspirée par cette conférence.

M. Ghazali, l'ancien premier ministre de Malaisie, argue depuis plusieurs années que les accords de Bretton Woods et les institutions financières mises sur pied à l'époque ne sont plus adaptées à l'économie mondiale actuelle, du fait des changements énormes qui sont intervenus depuis, et que la Banque mondiale, le FMI et

[Text]

Bank and the IMF and G-7 do not provide those mechanisms.

His proposal is that we should get the best economic brains in the world together in a room. We have to think up some other ways we probably have not even thought of now to start to address these problems, or we may be in a situation that is going to be disastrous to us all in the long term.

Now, I do not expect you to agree to that, being on the boards of some of these institutions, but there is that sort of other body of thinking out there by, I think, some very credible people as well from not the developed countries but from some of the developing countries.

Mr. Crow: It is certainly the case that these countries have a strong appetite for foreign capital. There are questions of the kinds of capital. They want loans, they want direct investment. Do they encourage the kinds of situations in which direct investment would be forthcoming? Often, unhappily, they do not. They want more concessionary than they want non-concessionary flows, and then there is the question of to what extent taxpayers want to provide that, within the budget calculus. You certainly cannot fault them for saying they want more.

The Vice-Chairman: Members of the committee, on your behalf I would like to thank the witness, Governor Crow, for sharing with us the morning, with your colleagues. It has certainly been a most constructive and useful session. It has been implied, if not directly suggested, by member Cassidy that maybe we should have it more often. I am sure when our chairman comes back he will wish he had shared it with us. Thank you very much.

Our next meeting, members of the committee, will be on Monday at 8 p.m. We will discuss the White Paper on Tax Reform, Stage II, that is the sales tax issue. I hope that you can all be with us.

Under those conditions, the meeting is adjourned.

[Translation]

le Groupe des sept ne font pas les changements nécessaires.

Son idée est qu'il faudrait rassembler les meilleurs économistes du monde dans une pièce. Il faut trouver des solutions entièrement neuves, que personne sans doute n'a même jamais encore envisagées, pour résoudre ces problèmes, faute de quoi nous courons au désastre à long terme.

Je ne pense pas que vous soyez d'accord avec cette vision des choses, siégeant au conseil d'administration de certaines de ces institutions, mais c'est ce que pensent un certain nombre de gens extrêmement crédibles, non seulement dans les pays développés, mais également dans ceux en voie de développement.

M. Crow: Il est certainement vrai que ces pays ont très faim de capitaux étrangers. Il faut voir aussi quelle sorte de capitaux. Ils veulent des prêts, des investissements directs. Mais créent-ils les conditions susceptibles d'attirer ces investissements directs? Malheureusement, tel n'est souvent pas le cas. Ils veulent davantage de prêts de faveur mais la question qui se pose est de savoir jusqu'où les contribuables veulent aller pour les leur consentir. En tout cas, on ne peut pas leur reprocher d'en réclamer davantage.

Le vice-président: Mesdames et messieurs, en votre nom, je voudrais remercier notre témoin, le gouverneur Crow, de nous avoir accordé son temps, ainsi que ses collègues. Cela fut une séance tout à fait constructive et utile. M. Cassidy a laissé entendre, s'il ne l'a pas réclamé directement, que nous devrions nous réunir plus souvent. Je suis sûr que votre président regrettera son absence d'aujourd'hui. Merci infiniment.

Notre prochaine séance est lundi, à 20 heures. Nous y traiterons de la deuxième phase de la réforme fiscale, c'est-à-dire la taxe de vente. J'espère que vous pourrez tous venir.

Là-dessus, la séance est levée.



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WITNESS

From the Bank of Canada:

John Crow, Governor.

TÉMOIN

De la Banque du Canada:

John Crow, gouverneur.

HOUSE OF COMMONS

Issue No. 133

Monday, January 25, 1988

Chairman: Don Blenkarn

CHAMBRE DES COMMUNES

Fascicule n° 133

Le lundi 25 janvier 1988

Président: Don Blenkarn

*Minutes of Proceedings and Evidence of the
Standing Committee on*

Finance and Economic Affairs

*Procès-verbaux et témoignages du Comité
permanent des*

Finances et des affaires économiques

RESPECTING:

Pursuant to Standing Order 96(2), consideration of
the White Paper and other related documents on
Tax Reform—Stage II (Sales Tax)

CONCERNANT:

En vertu de l'article 96(2) du Règlement, étude du
Livre blanc et autres documents connexes, ayant
trait à la réforme fiscale—deuxième étape (Taxe de
vente)

cond Session of the Thirty-third Parliament,
86-87-88

Deuxième session de la trente-troisième législature,
1986-1987-1988

STANDING COMMITTEE ON FINANCE AND
ECONOMIC AFFAIRS

Chairman: Don Blenkarn

Vice-Chairman: Robert E.J. Layton

Members

Bill Attewell
Michael Cassidy
Mary Collins
Simon de Jong
Murray Dorin
Raymond Garneau
Paul McCrossan
George Minaker
Aideen Nicholson
Marcel R. Tremblay
Norman Warner

(Quorum 7)

Marie Carrière

Clerk of the Committee

Pursuant to Standing Order 94(3), and a report of the
Striking Committee dated January 21, 1988:

Marcel R. Tremblay replaced Suzanne Blais-Grenier.

COMITÉ PERMANENT DES FINANCES ET DES
AFFAIRES ÉCONOMIQUES

Président: Don Blenkarn

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George Minaker
Aideen Nicholson
Marcel R. Tremblay
Norman Warner

(Quorum 7)

Le greffier du Comité

Marie Carrière

En vertu de l'article 94(3) du Règlement, et d'un rapport
du Comité de sélection en date du 21 janvier 1988:

Marcel R. Tremblay remplace Suzanne Blais-Grenier.

ORDER OF REFERENCE

Extract from the Votes and Proceedings of the House of Commons of Thursday, January 21, 1988:

Mr. Fontaine, from the Striking Committee, pursuant to Standing Order 94(3), presented the Forty-ninth Report of the Committee, which was read as follows:

Your Committee recommends that the Members acting for the House on the Standing Committees listed below, having neglected to file a list of substitutes or having given notice of their intention to give up membership on the committees listed below in accordance with Standing Order 94(3), be replaced as follows:—

No. 3

Finance and Economic Affairs

Tremblay (Québec-Est) for Blais-Grenier

By unanimous consent, on motion of Mr. Fontaine, seconded by Mr. Hawkes, the Forty-ninth Report of the Striking Committee, presented earlier this day, was concurred in.

ATTEST

ROBERT MARLEAU

Clerk of the House of Commons

ORDRE DE RENVOI

Extrait des Procès-verbaux de la Chambre des communes du jeudi 21 janvier 1988:

M. Fontaine, du Comité de sélection, conformément à l'article 94(3) du Règlement, présente le quarante-neuvième rapport de ce Comité, dont il est donné lecture ainsi qu'il suit:

Votre Comité recommande que les députés qui représentent la Chambre aux Comités permanents énumérés ci-dessous, ayant négligé de déposer une liste de substituts ou ayant donné avis de leur intention de cesser d'être membres des comités énumérés ci-dessous en conformité avec l'article 94(3) du Règlement, soient remplacés comme il suit:—

Nº 3

Finances et affaires économiques

Tremblay (Québec-Est) pour Blais-Grenier

Du consentement unanime, sur motion de M. Fontaine, appuyé par M. Hawkes, le quarante-neuvième rapport du Comité de sélection, présenté à la Chambre plus tôt aujourd'hui, est agréé.

ATTESTÉ

Le Greffier de la Chambre des communes

ROBERT MARLEAU

MINUTES OF PROCEEDINGS

MONDAY, JANUARY 25, 1988
(202)

[Text]

The Standing Committee on Finance and Economic Affairs met at 8:05 o'clock p.m. this day, in Room 253-D, Centre Block, the Chairman, Don Blenkarn, presiding.

Members of the Committee present: Don Blenkarn, Robert Layton, Aideen Nicholson, and Norman Warner.

Acting Member present: Geoff Wilson for Murray Dorin.

In attendance: From the Committee's Research Staff: H. Bert Waslander, Research Director. David Weyman, C.A., Peat Marwick; Andy J. Friedman, C.A., Peat Marwick; Lorey A. Hoffman, Ph.D., Peat Marwick; Peter H. Wood, C.A., Clarkson Gordon, Consultants.

In accordance with its mandate under Standing Order 96(2), the Committee commenced consideration of the White Paper and other related documents on Tax Reform—Stage II (Sales Tax) tabled in the House of Commons on Thursday, June 18, 1987.

The Research Staff made a presentation and answered questions.

At 9:58 o'clock p.m., the Committee adjourned to the Call of the Chair.

Marie Carrière
Clerk of the Committee

PROCÈS-VERBAL

LE LUNDI 25 JANVIER 1988
(202)

[Traduction]

Le Comité permanent des finances et des affaires économiques se réunit aujourd'hui à 20 h 05, dans la pièce 253-D de l'Édifice du centre, sous la présidence de Don Blenkarn, (*président*).

Membres du Comité présents: Don Blenkarn, Robert Layton, Aideen Nicholson et Norman Warner.

Membre suppléant présent: Geoff Wilson remplace Murray Dorin.

Aussi présents: Du personnel de recherche du Comité: H. Bert Waslander, directeur de la recherche. David Weyman, c.a., *Peat Marwick*; Andy J. Friedman, c.a., *Peat Marwick*; Lorey A. Hoffman, ph.d., *Peat Marwick*; Peter H. Wood, c.a., *Clarkson Gordon*, conseillers techniques.

Conformément au mandat que lui confie le paragraphe 96(2) du Règlement, le Comité entreprend d'étudier le Livre blanc et autres documents connexes ayant trait à la réforme fiscale, deuxième étape (taxe de vente) déposés sur le bureau de la Chambre des communes le jeudi 18 juin 1987.

Le personnel de recherche donne un exposé et répond aux questions.

À 21 h 58, le Comité s'ajourne jusqu'à nouvelle convocation du président.

Le greffier du Comité
Marie Carrière

EVIDENCE

[Recorded by Electronic Apparatus]

[Texte]

Monday, January 25, 1988

• 2003

The Chairman: Order, please. Pursuant to Standing Order 96.(2), we are considering the white paper and other related documents on tax reform, stage two, sales tax.

We have as witnesses specialists Andy J. Friedman, C.A.; Lorey A. Hoffman, Ph.D. in economics; and Peter H. Wood, C.A. I welcome you, all your material, and David Weyman back again. I understand you have all the answers and we do not need to worry about it. We will just listen attentively and ask the odd stupid question.

Mr. Weyman, maybe you can tell us where we are going from here.

Mr. David Weyman (Committee Researcher): Basically what we have in mind to do over the next three days is really to review all the aspects of the government's proposal to reform the existing federal sales tax system and replace it with a multi-stage sales tax, extending to the retail trade level. That is in essence the government's proposal.

• 2005

As you are all aware, the proposal was put forward in the form of three alternatives: two basic alternatives, that the tax would be either in the form of a goods and services tax or in the form of a value-added tax; and as an alternative option, the government is discussing with the provinces the possible introduction of a national sales tax, which would be a form of value-added tax, embracing some or all of the provinces as well as the federal government.

That having been said, the objective this evening and through hearings later this week is to examine first what a multi-stage sales tax is, as proposed by the government; to compare it with provincial retail sales taxes, which I think we all know and are all familiar with, who is liable, the nature of the tax, certain concepts such as what is an import and what is an export; and then to look at that very contentious area in a multi-stage sales tax system which is the various methods there are to relieve the tax burden if such a decision is made: the alternatives of exemptions or zero-rating, which is another phrase meaning tax-free, or, alternatively, the introduction of refundable income tax credits, looking at the impact of grants and subsidies as well, on a multi-stage sales tax system.

TÉMOIGNAGES

[Enregistrement électronique]

[Traduction]

Le lundi 25 janvier 1988

Le président: La séance est ouverte. En vertu de l'article 96.(2) du Règlement, nous examinons le Livre blanc et autres documents connexes ayant trait à la réforme fiscale—deuxième étape (taxe de vente).

Nos témoins experts sont Andy J. Friedman, c.a.; Lorey A. Hoffman, Ph.d. en économie, et Peter H. Wood, c.a. Nous vous souhaitons la bienvenue, ainsi qu'à David Weyman, qui est de nouveau parmi nous. Je crois comprendre que vous possédez toutes les réponses et que nous n'avons pas à nous soucier de quoi que ce soit. Nous vous écouterons attentivement et nous poserons à l'occasion des questions qui vous paraîtront peut-être stupides.

Monsieur Weyman, pouvez-vous nous expliquer ce qui est au menu?

M. David Weyman (attaché de recherche du Comité): Nous comptons, au cours des trois prochains jours, examiner tous les aspects de la proposition gouvernementale visant à réformer l'actuel système de taxe de vente fédérale et à le remplacer par une taxe de vente multi-stades qui serait prélevée jusqu'au niveau de la vente au détail. Voilà essentiellement en quoi consiste la proposition du gouvernement.

Comme vous le savez tous, la proposition de réforme comporte trois options, dont les deux plus simples seraient l'instauration d'une taxe sur les biens et services, ou encore d'une taxe sur la valeur ajoutée. Par ailleurs, le gouvernement examine avec les provinces une troisième option qui serait l'instauration d'une taxe de vente nationale prenant la forme d'une taxe sur la valeur ajoutée qui serait prélevée par le gouvernement fédéral et par certaines des provinces, sinon toutes.

Cela étant dit, nous proposons pour la séance de ce soir et celle du reste de la semaine de voir à quoi tient la taxe de vente multi-stades proposée par le gouvernement, de la comparer à la taxe de vente au détail prélevée par la province—selon une formule que nous connaissons tous—de déterminer qui devra l'acquitter, de définir la nature de cette taxe et de déterminer ce qui constitue une importation et une exportation. Nous examinerons ensuite l'aspect le plus controversé de la taxe de vente multi-stades, c'est-à-dire les divers mécanismes qui existent pour alléger le fardeau fiscal imposé par une telle taxe, à savoir, d'une part, les exemptions ou franchises, appelées aussi détaxations ou, d'autre part, les crédits remboursables au titre de la taxe de vente. Nous examinerons aussi l'interaction entre les subventions et une taxe de vente multi-stades.

[Text]

This in brief is our review, which we will be looking at this evening in looking at a multi-stage sales tax. Following that, having understood what such a tax is, we will then discuss how a multi-stage sales tax system operates. We will look at some of the aspects of administration and compliance, and then look at various sectoral issues: the possible impact of a multi-stage sales tax on small business, on real estate, on farming and fishing, on not-for-profit and charitable organizations, on Crown corporations and governments, and on transportation and the travel industry; and finally the impact of the government's proposal on financial intermediaries, including banks and trust companies and other lenders, investment dealers, life insurance companies, and property and casualty insurers.

Then a very tricky area is to look at the transitional issues that will arise on the introduction of a multi-stage sales tax system to replace the existing federal sales tax system: how you move from the existing system to the new system and what some of the issues are in that regard.

Finally, we will discuss the implications of a national sales tax: what the constitutional issues might be, including the actual collection of tax, whether all the provinces are in or not all the provinces are in, how the system would operate, what the tax base would look like, comparing federal domain with provincial domain, the impact on imports and exports and on transportation and other services. There are some very tricky areas there that need to be addressed.

So it is a comprehensive review that is planned for the next few days. That having been said, I would suggest we begin by looking at the nature of a multi-stage sales tax.

The Chairman: Mr. Friedman.

Mr. Andy J. Friedman (Individual Presentation): The next few sessions are designed to give you the fundamentals of the multi-stage sales tax, as David said. The concepts are deceptively simple; and the emphasis should be on the word "deceptive". You think at one time you have the principles, and they elude you. The building blocks should be easy to pick up; it is the interrelationships that can lead to confusion. Even with people who have been familiar with the concepts for years, you sometimes sit back and say, gee, this does not make sense. If we can leave you having learned the basic fundamentals, the job has been done. The complexities for particular industries or situations will be easy to understand once the foundations have been built.

It goes without saying you can stop and ask questions at any time. If we get side-tracked into some subsidiary issue

[Translation]

Voilà un bref survol de l'examen que nous entreprenons, qui portera ce soir sur la taxe de vente multi-stades. Quand nous aurons compris à quoi tient ce genre de taxe, nous discuterons du mode d'application d'une taxe de vente multi-stades. Nous parlerons ensuite de l'application et de l'observation de la loi à cet égard et de diverses questions d'ordre sectoriel, à savoir l'incidence que pourrait avoir une taxe de vente multi-stades sur les petites entreprises, le secteur de l'immobilier, l'agriculture et les pêches, les organisations sans but lucratif et de bienfaisance, les sociétés d'État et les gouvernements, le secteur du transport et des voyages et, enfin, de l'incidence de la proposition du gouvernement sur les intermédiaires financiers, y compris les banques, les sociétés de fiducie et autres établissements de prêt, les courtiers en placement, les compagnies d'assurance-vie, y compris les compagnies d'assurance générale.

Il nous faudra ensuite aborder l'épineux problème de la transition de l'actuelle taxe fédérale de vente à la taxe de vente multi-stades, à savoir comment effectuer la conversion, et autres questions connexes.

Enfin, nous discuterons de l'instauration d'une taxe de vente nationale, des questions d'ordre constitutionnel que cela pourrait soulever, notamment en ce qui concerne la perception de la taxe, la question de savoir si toutes les provinces participeront au nouveau régime, du fonctionnement du système, de l'assiette de la taxe, du partage des domaines fiscaux entre le gouvernement fédéral et les provinces, de l'incidence qu'elle pourrait avoir sur les importations et les exportations, sur les transports et autres services. L'instauration d'une telle taxe soulève des problèmes épineux que nous devons examiner.

Ainsi, nous effectuerons au cours des prochains jours un examen assez approfondi de toute la question. Cela étant dit, je propose que nous discussions d'abord de la nature d'une taxe de vente multi-stades.

Le président: Monsieur Friedman.

M. Andy J. Friedman (à titre personnel): Comme vous l'a dit David, nous vous expliquerons au cours des quelques séances à venir les éléments fondamentaux de la taxe de vente multi-stades. Les notions de base sont d'une simplicité trompeuse, et j'insiste sur le mot «trompeuse». Alors même que vous croyez avoir saisi les principes, ils vous échappent. Les principes de base devraient être assez faciles à saisir. Ce sont les interactions qui peuvent prêter à confusion. Même ceux qui manient ces notions depuis des années en viennent parfois à se dire qu'ils n'ont aucun sens. Or, si nous réussissons à vous faire comprendre les principes de base, nous aurons atteint notre but. Une fois les fondements jetés, vous pourrez facilement comprendre la complexité que représentent les diverses taxes pour certaines industries et dans certaines situations.

Il va sans dire que vous pouvez m'interrompre souhait pour poser des questions. Nous vou

[Texte]

prior to presentation of the basic concept, we may interrupt you.

The sessions, as David says, have been built on modules. All the pages are numbered by page number within the module. I hope tonight we will cover the fundamentals, which are in the first section.

• 2010

The material has been distributed to you. We will start at page 1-1 and refer to page numbers as we walk through the materials.

Throughout the discussions we will also refer to the European and New Zealand experience. We brought along a bunch of binders of value added taxation in Europe, a country-by-country VAT reference published by the International Bureau of Fiscal Documentation in Amsterdam. So if you have particular concerns about one aspect of the tax in other countries, we can get back to you fairly quickly.

Now, if we turn to page 1-1, it asks this question: what is a multi-stage sales tax? It is very simple. It is a tax on the ultimate consumer of goods or services. It is a tax on the final domestic consumption of goods and services. It has been called a retail sales tax applied in stages. There is some fallacy to this, as you will see. Any tax collected from non-consumer purchasers is refunded or credited to that purchaser, and then he turns around and collects tax on his selling price to his customer. So the tax is applied in stages, the tax is collected on the sales price at each level, and the whole amount is refunded at the next stage.

So if in fact the tax is nothing but a retail sales tax on sheep's clothing, why not just impose a simple retail sales tax? I guess the answer to that has always been that there is no easy way to pull out the taxes on business inputs, that—

The Chairman: It is very simple. If the purchaser is a business, then you certify the purchaser as a business and he buys tax free.

Mr. Weyman: It would be just an exemption system that would be operated—

The Chairman: Sure.

Mr. Weyman: —throughout business. It means that if a business goes into stationery or—

The Chairman: If a business buys stationery or computer forms or whatever, it is certified as being a valid business and therefore certified as being entitled to buy tax-free.

[Traduction]

interrompons toutefois à notre tour si nous faisons des digressions sur des questions accessoires avant que ne soit terminée l'explication du concept de base.

Comme l'a expliqué David, les séances ont été organisées en modules. Toutes les pages portent un numéro de module et de page. J'espère que nous réussirons ce soir à aborder toutes les notions de base qui sont regroupées dans le premier module.

La documentation vous a été distribuée. Nous commencerons à la page 1-1 et nous mentionnerons le numéro de la page au fur et à mesure que nous avancerons dans le document.

En outre, tout au long de la discussion, nous ferons mention de l'expérience vécue en Europe et en Nouvelle-Zélande. Nous avons apporté toute une série de documents sur les taxes sur la valeur ajoutée en Europe, un document de référence, pays par pays, sur la TVA publié par le Bureau international de documentation fiscale. Ainsi, si vous avez des questions particulières à poser sur l'un ou autre aspect de la taxe dans d'autres pays, nous pourrons vous fournir la réponse assez rapidement.

Maintenant, si vous voulez bien vous reporter à la page 1-1, vous y lirez la question suivante: qu'est-ce qu'une taxe de vente multi-stades (TVMS)? C'est très simple. C'est une taxe sur les ventes finales de biens et de services au consommateur. C'est une taxe sur la consommation intérieure finale de biens et de services. On l'a appelée taxe de vente au détail appliquée par étapes. Ce n'est pas tout à fait juste, comme vous le verrez. Toute taxe acquittée par des acheteurs non consommateurs est remboursée ou créditée à l'acheteurs, qui, lui, ajoute la taxe à son prix de vente. Ainsi, la taxe est appliquée par étapes, elle est perçue sur le prix de vente à chaque stade, et le montant intégral de la taxe payée est remboursé au stade suivant.

Si la taxe n'est en fait qu'une taxe de vente au détail déguisée, pourquoi ne pas imposer purement et simplement une taxe de vente au détail? C'est qu'on n'a jamais trouvé de moyen facile pour séparer les taxes payées sur les intrants d'entreprise et que...

Le président: C'est très simple. Si l'acheteur est une entreprise, il obtient une attestation et peut alors effectuer ses achats en franchise.

M. Weyman: Il y aurait un système d'exemption dont pourraient se prévaloir...

Le président: Absolument.

M. Weyman: ... toutes les entreprises. Cela veut dire que si un entrepreneur entre dans une papeterie ou...

Le président: Si un entrepreneur achète de la papeterie ou des formulaires d'informatique, ou peu importe, il a en main l'attestation requise et peut effectuer ses achats en franchise.

[Text]

Mr. Friedman: So you would in fact just work through a—

The Chairman: It is the same as a retail sales tax right now. He would give you a retail sales tax exemption and he would buy it tax-free.

Mr. Friedman: So we are exchanging a system of exemption certificates for a system of payments of tax and refunds.

The Chairman: You save an awful lot of policing, collecting of taxes and refunding of taxes.

Mr. Weyman: I would suggest that you might not save at all on the policing side, because somebody would have to go around to make sure that these exemption certificates were in fact being given validly, where you wish to claim that it was indeed a business use. Quite clearly there is a difficulty in not really allowing any form of apportionment or allocation between business use and personal consumption where there is a mixed use, as occurs so often in business circumstances.

Mr. Layton: I have just turned to chapter 1 of the Minister's booklet on tax reform, and he says that a good sales tax system supports growth and efficiency. It should minimize compliance costs for businesses and administrative costs for government. I sense that this is exactly the opposite. We are maximizing. There could not be a more extreme way of hitting the businesses with paying the tax or with the problems of government in collecting it, because at each stage you have to have a charge and a credit which we do not have today.

Mr. Friedman: If there are no exceptions, I guess the reasoning is that you pay tax on everything and you get a credit for all purchases. In fact, the idea is very simple and—

Mr. Layton: The net result is that you get a single eventual tax, consumer to government. But my God, in the meantime we have added four steps, maybe five—I do not know, maybe ten. Is it possible that a product might have been ten times in process bought and sold before it reaches the eventual consumer?

• 2015

Mr. Friedman: Yes.

Mr. Layton: And we have added a tax to be collected and a credit to be exercised to every one of those stages.

Mr. Friedman: We were looking at an article by Mr. Cnossen in the *Canadian Tax Journal* of May/June 1987, who basically concludes as you have said.

Mr. Peter H. Wood (Individual Presentation): It is a fairly long article, and we would be happy to supply members with it, but he is looking at the arguments of VAT versus retail sales tax. I think he comes to the

[Translation]

M. Friedman: Ainsi, il s'agirait tout simplement de . . .

Le président: C'est exactement ce qui se fait actuellement pour la taxe de vente au détail. L'homme d'affaires présenterait un certificat d'exemption au titre de la taxe de vente au détail et effectuerait ses achats en franchise.

M. Friedman: Nous remplaçons donc un système de certificat d'exemption par un système de paiement de la taxe avec remboursement.

Le président: Cela évite tout le tracàs des vérifications, de la perception des taxes et des remboursements.

M. Weyman: Je crains que les économies au niveau de la vérification ne soient pas énormes, parce que quelqu'un devra vérifier si les certificats d'exemption présentés par les entreprises étaient valides lorsqu'ils prétendent que les achats étaient destinés à un usage commercial. Il est clair qu'un problème se posera du fait qu'il n'y aura aucune possibilité de répartition proportionnelle entre l'usage commercial et l'usage personnel en cas d'utilisation mixte, comme c'est souvent le cas dans les entreprises.

M. Layton: Je viens tout juste de me reporter au chapitre 1 du document du ministre sur la réforme fiscale, où il dit qu'un bon système de taxe de vente doit soutenir la croissance et l'efficacité, réduire au minimum les coûts d'observation des entreprises et les coûts d'administration de l'État. J'ai l'impression que ce sera tout le contraire. Nous allons maximiser ces derniers. On n'aurait pas pu mieux trouver pour compliquer la vie des entreprises, qui devront acquitter la taxe, et aggraver les problèmes de perception du gouvernement, puisque nous aurons à chaque stade un prélèvement de la taxe et un remboursement que nous n'avons pas aujourd'hui.

M. Friedman: En l'absence de toute exception, on a jugé, je crois, que tous les achats seraient assujettis à la taxe et donneraient droit à un remboursement. En fait, l'idée est très simple et . . .

M. Layton: Au bout du compte, il n'y aura qu'une seule taxe payée par le consommateur au gouvernement. Mais dans l'intervalle, nous aurons à ajouter quatre, sinon cinq, étapes—je n'en sais rien, c'est peut-être dix. Se peut-il qu'un produit ait été vendu et acheté dix fois, le long de la chaîne, avant d'arriver jusqu'au consommateur?

M. Friedman: Oui.

M. Layton: Et nous avons ajouté une taxe à percevoir et un crédit à réclamer à chacune de ces étapes.

M. Friedman: C'est à peu près la conclusion que tire M. Cnossen, dans un article publié dans le *Canadian Tax Journal* de mai-juin 1987.

M. Peter H. Wood (à titre personnel): C'est un article assez long, que nous sommes bien prêts à communiquer aux membres du Comité, mais l'auteur passe en revue les arguments en faveur de la TVA et de la taxe de vente au

[Texte]

conclusion that there is a marginal advantage for a value-added tax.

Mr. Layton: What is the value added over the federal sales tax? How does MSST fit that?

Mr. Wood: We will be explaining in a couple of minutes. It is just a name—MSST, a multi-stage sales tax. Value-added tax is a type of MSST.

Mr. Weyman: Just to clear the point that I think Mr. Wood was making, according to this analysis he has referred to in this article, the value-added tax would have an edge not, I think you said, over the existing federal sales tax but over an alternative in the form of a single-stage retail sales tax. I think that is correct.

Mr. Friedman: If I understand correctly, the emphasis should be on marginal.

The Chairman: How marginal?

Mr. Wood: There are a couple of arguments. One that Andy alluded to, which is it is very difficult it seems under a retail sales tax to relieve business inputs, which is one of the objects of the exercise. Secondly, there is also a compliance burden that is put on the retailer if it is just a retail sales tax, because in some sales he has to collect tax, others he does not; whereas under a value added tax, assuming it is broad-based, he collects tax on everything and the next guy gets a credit. There is less of a compliance burden on the vendor to collect certificates, be responsible for keeping those certificates, sorting out whether a sale was taxable exempt, and so on.

Mr. Friedman: If you go into a lumber yard—and lumber yards will have people building things who go in and buy at the retail level—the lumber yard salesperson under a VAT is not going to have to worry. They just charge the tax, and if it is purchased by a company or a business that is a taxpayer who is registered, they will get an instant credit for it.

Exemption certificates are where the problem comes, and Peter alluded to that. The store clerk or whoever is going to have to police those exemption certificates.

The Chairman: Is there any experience in the province of Ontario where people buy with exemptions? Right today a lumber yard is selling retail; it charges sales tax to everyone who does not have an exemption certificate.

Mr. Friedman: Well, no. I think that may be a—

The Chairman: That is what happens.

Mr. Friedman: —bit more confusing, in that the lumber would be purchased by somebody who is the consumer because he is basically going to attach it to real profit—

The Chairman: Right now if you buy lumber from a lumber yard in Ontario, you pay retail sales tax unless you have a licence or a certificate, in which case it is sold

[Traduction]

détail. Il en vient à la conclusion que la taxe à la valeur ajoutée présente un léger avantage.

M. Layton: Quelle est la différence entre la TVA et la taxe de vente fédérale? Où la taxe de vente multi-stades se situe-t-elle?

M. Wood: Nous allons vous l'expliquer dans un instant. Il s'agit, comme son nom l'indique, d'une taxe de vente multi-stades. La taxe à la valeur ajoutée est une forme de taxe de vente multi-stades.

M. Weyman: Pour mieux vous expliquer ce qu'a dit M. Wood, selon l'analyse de l'article qu'il a mentionné, la taxe à la valeur ajoutée présenterait un avantage, non pas sur la taxe de vente fédérale actuellement en vigueur, mais sur la taxe de vente au détail perçue uniquement au bout de la chaîne. Cela me paraît exact.

M. Friedman: Si j'ai bien compris, il s'agit seulement d'un léger avantage.

Le président: Dans quelle mesure?

M. Wood: Plusieurs arguments ont été invoqués en ce sens. Selon celui qu'Andy a mentionné, la taxe de vente au détail permet difficilement d'exonérer les intrants, ce qui constitue l'un des objectifs de la réforme. En deuxième lieu, la taxe de vente au détail impose davantage d'obligations au détaillant, étant donné qu'il doit percevoir la taxe dans certains cas, mais pas dans d'autres, alors qu'il doit faire payer la TVA à le monde, sur toutes les marchandises. C'est à l'acheteur de s'arranger pour obtenir un crédit. Le vendeur n'a pas à obtenir les certificats, à les conserver et à établir si une vente était exonérée de la taxe ou non.

M. Friedman: Pour prendre l'exemple du marchand de matériaux de construction, qui vend au détail à certains clients, avec la TVA, ce commerçant n'a aucun souci à se faire. Il se contente de faire payer la taxe et, si l'acheteur est une entreprise enregistrée, il obtiendra instantanément un crédit pour le montant de cette taxe.

Ce sont les certificats d'exonération qui posent un problème, comme l'a mentionné Peter. Le vendeur va devoir vérifier ces certificats.

Le président: Y a-t-il actuellement, en Ontario, des gens qui achètent des marchandises avec un certificat d'exonération? À l'heure actuelle, un marchand de matériaux de construction qui vend au détail fait payer la taxe de vente à tous ceux qui n'ont pas de certificat d'exonération.

M. Friedman: Non. Les choses sont peut-être. . .

Le président: C'est bien le cas.

M. Friedman: . . . un peu plus compliquées, en ce sens que le bois est acheté par un client qui espère réaliser un profit. . .

Le président: À l'heure actuelle, si vous achetez du bois chez un marchand de l'Ontario, vous payez la taxe de vente au détail, à moins de pouvoir produire une licence

[Text]

to you without the sales tax. So what is the difficulty? Has there been a huge problem in Ontario in the retail sales tax deal with these exemption certificates?

Mr. Wood: Mr. Chairman, you are quite right in how it operates, but one of the problems is there is an obligation on the vendor, or the lumber yard, to police those certificates. In certain circumstances if the certificate is not a valid certificate, then the lumber yard ends up being stuck with the tax or that equivalent of the tax—

The Chairman: But that is the kind of obligation there is right throughout various taxing statutes—

Mr. Wood: Other than under a VAT, because under a VAT the tax is on the sales and you just remit it, and it is the next fellow who really worries about taking the credit and whether taking the credit is proper.

The Chairman: Well, you have to worry one way or another, do you not? You have to pay the thing and calculate it. If you think that is a bad worry. . . What you are saying is I have to worry about every sale instead of only some of the sales.

• 2020

Mr. Weyman: Well, I might add, Mr. Chairman, from the government's point of view, at least under a value-added tax system it has the money in the bank, having collected it from the previous vendor, and then the purchaser may claim a credit, which would of course put the money back into the business sector, and then it is a question of whether that is a valid credit that has been claimed.

Mr. Friedman: But that may even not be true, in that the tax may have been refunded so the government does not have the money. We will go through an example that will illustrate when the government keeps the money and when it has to give it back. It is very important to understand that, because all through the literature we hear about this tax collected in stages and sometimes it does not happen.

The Chairman: You do not pay the tax; what you do is remit the difference, do you not?

Mr. Friedman: Well, let us wait and see how it all works through, because sometimes you remit the difference and sometimes you do not, depending on the circumstances. The tax is a cash basis tax. Credit is received by the purchaser in the same period that the vendor collects and remits the tax. There is no concept of matching. So if any of you are accountants, then you do not worry about when the goods are sold. The same period in which the tax was paid by one party, the next party can claim a credit for it. There is no concept of depreciation for purchases of fixed assets. If you buy a fixed asset and the MSST has been added on, you are eligible for a credit in the same period in which you bought the asset.

[Translation]

ou un certificat, auquel cas vous n'avez pas à acquitter la taxe. Où est le problème? Ces certificats d'exonération de la taxe de vente au détail ont-ils donné lieu à de sérieux problèmes, en Ontario?

M. Wood: Monsieur le président, les choses se passent bien comme vous le dites, mais le vendeur ou le marchand de bois doit vérifier ces certificats. Dans certains cas, si le certificat n'est pas valide, le marchand se trouve obligé de payer la taxe ou l'équivalent, de sa poche. . .

Le président: Mais vous retrouvez ce même genre d'obligation dans les diverses lois fiscales. . .

M. Wood: Sauf pour la TVA. En effet, la TVA est perçue sur les ventes, vous vous contentez de la verser au gouvernement, et c'est à votre acheteur de s'arranger pour obtenir un crédit et de voir s'il y a droit.

Le président: Vous avez des obligations dans un cas comme dans l'autre, n'est-ce pas? Vous devez payer la taxe et la calculer. Si vous pensez que c'est exagéré. . . En fait, vous dites que le commerçant a ce genre d'obligation pour chaque vente plutôt que quelques-unes seulement.

M. Weyman: Monsieur le président, j'ajouterais que, si je me place du point de vue du gouvernement, la TVA lui permet d'encaisser l'argent perçu auprès du premier vendeur. Cet argent retourne dans le secteur des affaires si l'acheteur a droit à un crédit, à la condition que la demande de crédit soit valide.

M. Friedman: Mais ce n'est pas nécessairement vrai, en ce sens que la taxe peut avoir été remboursée, si bien que le gouvernement ne possède pas cet argent. Nous allons citer un exemple qui montrera quand le gouvernement conserve l'argent et quand il doit le rembourser. C'est une chose qu'il faut bien comprendre, étant donné tout ce que nous avons pu lire, et qui n'est pas toujours vrai, au sujet de cette taxe perçue en plusieurs étapes.

Le président: On ne paye pas la taxe; on se contente de payer la différence, n'est-ce pas?

M. Friedman: Attendons de voir comment le système fonctionne, étant donné qu'il faut payer la différence dans certains cas, mais pas toujours, selon les circonstances. Cette taxe repose sur le principe de la comptabilité de caisse. L'acheteur reçoit un crédit lorsque le vendeur perçoit et verse la taxe. Il n'est pas nécessaire que la vente et l'achat concordent. S'il y a des comptables parmi vous, vous comprendrez que le moment où les marchandises sont vendues n'a pas d'importance. Un acheteur paie la taxe, et l'acheteur suivant peut demander un crédit au cours de la même période. Il n'y a pas d'amortissement pour les achats d'immobilisations. Si vous achetez un actif immobilisé au prix duquel a été ajoutée la taxe de vente multi-stades, vous avez droit à un crédit pendant la période au cours de laquelle vous avez fait cet achat.

[Texte]

If we switch to page 1-1a, we will go through a fairly simple example. I think some of the arrows have been left out, but it will still be easy to understand. Throughout our presentation we have assumed an 8% tax; so if you flip through the pages you will see 8%, but the Finance Minister's December 1987 release regarding taxation of basic groceries and prescription drugs may have pushed the minimum figure to somewhere between 9% and 10%. Nevertheless, for the purposes of our illustration only we will continue to use the 8% figure.

Now, page 1-1a compares the taxation of goods under a retail sales tax scheme with that under multiple stage sales tax. The first column on the left-hand side illustrates a retail sales tax and the example concerns a manufacturer who sells goods for \$100 to a wholesaler; then the wholesaler sells the goods to a retailer for \$150, and the retailer then turns around and resells the goods for \$350.

Now currently, as you gentlemen correctly pointed out, when the manufacturer sells to a wholesaler he provides either an exemption certificate or in some provinces a vendor registration number. Since he is buying the goods for resale, he will take care of the tax. So if you follow the chain through right to the bottom, no tax is collected until it gets to the retailer. The retailer then withholds tax of \$350 times 8%, or \$28.

When you look at the right-hand side under an MSST, the manufacturer sells the goods to a wholesaler. He sells them for \$100 plus \$8 MSST. That MSST is remitted to the government. The goods are then sold by the wholesaler for \$150, plus a \$12 sales tax charge, and he gets a credit for the \$8 paid by the manufacturer, allowing for a net remittance of \$4. However, let us assume that the goods are sold by the manufacturer to the wholesaler for \$100 and it sits on the shelves of the wholesaler for two months; there is not a netting of the \$12 remittance against the \$8 credit to give you \$4. The wholesaler turns around and files a refund claim and gets back the \$8 collected by the manufacturer. The government in this situation does not have a penny. So the only time the tax is collected in stages is if the goods move from the manufacturer to the end consumer in the same period.

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Mr. Layton: The period being how long?

The Chairman: A month.

Mr. Friedman: Well, it can be as long as quarter—

Mr. Wood: Or a year.

Mr. Friedman: —or a year.

Mr. Layton: That is a good answer to the question. How long?—a month, a quarter, a year!

[Traduction]

Si vous prenez la page 1-1a, vous y trouverez un exemple assez simple. Certaines flèches ont été oubliées, mais le tableau demeure facile à comprendre. Dans notre mémoire, nous sommes partis du principe que la taxe était de 8 p. 100; c'est donc le taux que vous retrouverez d'une page à l'autre. Néanmoins, le communiqué de décembre 1987 du ministre des Finances concernant l'imposition des produits alimentaires de base et des médicaments vendus sur ordonnance a peut-être porté le taux minimum à 9 ou 10 p. 100. Nous continuerons toutefois à utiliser un taux de 8 p. 100 dans les exemples que nous donnerons.

La page 1-1a compare la taxation des marchandises en fonction de la taxe de vente au détail, d'une part, et de la taxe de vente multi-stades, d'autre part. La première colonne de gauche donne un exemple de l'application de la taxe de vente au détail. Un fabricant vend des marchandises d'une valeur de 100\$ à un grossiste; le grossiste les revend à un détaillant 150\$, et le détaillant les revend à son tour 350\$.

Comme vous l'avez fait valoir, quand le fabricant vend des marchandises à un grossiste, ce dernier doit produire un certificat d'exonération ou, dans certaines provinces, un numéro d'enregistrement de vendeur. Comme il achète les marchandises pour les revendre, c'est lui qui doit se préoccuper de la taxe. Par conséquent, si vous suivez la chaîne d'un bout à l'autre, vous verrez qu'aucune taxe n'est perçue avant le dernier maillon, celui de la vente au détail. Le détaillant perçoit une taxe de 8 p. 100 sur 350\$, ce qui donne 28\$.

Si vous regardez, à droite, ce qui se passe avec la taxe de vente multi-stades, le fabricant vend les marchandises à un grossiste pour la somme de 100\$, plus une taxe de vente multi-stades de 8\$ qu'il verse au gouvernement. Le grossiste revend les marchandises 150\$, plus une taxe de 12\$, et il obtient un crédit pour les 8\$ que le fabricant a payés, ce qui donne un versement net de 4\$. Supposons toutefois que le fabricant vend ses marchandises valant 100\$ au grossiste et que ce dernier ne les revende pas avant deux mois; pendant ce temps, il ne verse pas au gouvernement les 4\$ représentant la différence entre les 12\$ déjà payés et le crédit de 8\$. Le grossiste demande un remboursement et récupère les 8\$ que le fabricant lui a fait payer. En pareil cas, le gouvernement se retrouve sans un sou. Par conséquent, la taxe est perçue en plusieurs étapes uniquement si les marchandises vont du fabricant jusqu'au consommateur au cours de la même période.

M. Layton: Quelle est la durée de cette période?

Le président: Un mois.

M. Friedman: Elle peut être de trois mois. . .

M. Wood: Ou un an.

M. Friedman: . . . ou un an.

M. Layton: Voilà une bonne réponse. Un mois, trois mois ou un an!

[Text]

The Chairman: You ought to explain that it depends on the size of the operation and the various rules. But generally speaking it is a monthly remittance.

Mr. Friedman: Generally speaking it is a quarterly remittance. But if you are always in a credit position where you are asking for money back from the government then you can elect to go for one month.

Mr. Wood: Or if you are very large.

The Chairman: Is not New Zealand one month and one day?

Mr. Friedman: No.

The Chairman: It is not?

Mr. Friedman: No.

The Chairman: For ordinary manufacturers?

Mr. Layton: Like the French-Canadian expression, *ça dépend*.

Mr. Friedman: The New Zealand remittances we cover—

Mr. Wood: We will check that for our module tomorrow.

Mr. Friedman: In New Zealand it is generally bimonthly and half-yearly. So it is once every two months. I think they split the tax rolls into two; one half file one month, and the other half file the other month.

The opportunity to file on a monthly basis is important, because if you are the wholesaler then you used to get those goods for \$100. Now it is costing you \$108. It now means that you are carrying \$8 more of costs. So unless you are allowed to file a refund claim in a period when the additional amounts were paid, you would be out that \$8. So if you are always in a refund situation then you would have the option to file—

The Chairman: When is the tax payable? Is it payable when you pay for the goods? Is it payable when you receive the goods or when you receive the invoice for the goods?

Mr. Friedman: The tax is payable at the earlier of the receipt of the cash or the billing being set up. That will be covered in the—

The Chairman: Under our present federal sales tax, which we have just finished doing a white paper on some changes in, I believe we have a remittance every 15 days now.

Mr. Friedman: There is a size test for larger corporations.

The Chairman: That is right.

[Translation]

Le président: Vous devriez expliquer que cela dépend de la taille de l'entreprise et des diverses règles en vigueur. Mais en général, la taxe est versée mensuellement.

M. Friedman: En général, elle est versée trimestriellement. Mais si vous avez toujours un crédit et si le gouvernement vous doit toujours de l'argent, vous pouvez choisir une période d'un mois.

M. Wood: Ou si vous avez un chiffre d'affaires très important.

Le président: N'est-ce pas un mois et un jour en Nouvelle-Zélande?

M. Friedman: Non.

Le président: Non?

M. Friedman: Non.

Le président: Pour les fabricants ordinaires?

M. Layton: Ça dépend, comme on dit en français.

M. Friedman: En Nouvelle-Zélande. . .

M. Wood: Nous allons vérifier d'ici demain.

M. Friedman: En Nouvelle-Zélande, les versements ont généralement lieu tous les deux mois ou chaque semestre. Je pense que la liste des contribuables est divisée en deux; une moitié demande son remboursement un mois, et l'autre moitié, l'autre mois.

Il est important de pouvoir demander un remboursement mensuellement, étant donné que le grossiste qui pouvait acheter ces marchandises pour la somme de 100\$ doit maintenant déboursier 108\$. Autrement dit, il a des frais supplémentaires de 8\$. Par conséquent, si vous ne pouvez pas demander de remboursement au cours de la période où vous devez payer ces frais supplémentaires, vous devez sortir ces 8\$ de votre poche. Donc, si le gouvernement vous doit toujours de l'argent, vous avez la possibilité. . .

Le président: Quand la taxe doit-elle être versée? Est-ce au moment où vous payez les marchandises? La payez-vous quand vous recevez les marchandises ou quand vous recevez la facture?

M. Friedman: Il faut la payer sur réception de l'argent ou au moment de la facturation, si elle a lieu avant. Il en sera question dans. . .

Le président: Selon le système actuellement en vigueur pour la taxe de vente fédérale, sur laquelle nous venons de terminer un Livre blanc proposant certains changements je crois que la taxe doit être versée tous les quinze jours.

M. Friedman: Cela s'applique, à titre expérimental, aux grandes sociétés.

Le président: C'est exact.

[Texte]

Mr. Friedman: Under the current scheme it is the last day of the month, and effective in April or May of this year it will be 22 or 23 days after the month-end.

When I say that the tax is due, you still have that quarterly pay period by which to file the payment. But that is another module that we will get into on administration.

It is important to realize that if the goods remain in the hands of the manufacturer or wholesaler, or even the retailer, then the tax collected in stages, that part, goes out the window and in effect what you have ultimately is a retail sales tax. So if you follow this through from the retailer to the consumer, the retailer sells the goods for \$350, there is tax of \$28, a credit of \$12, net remittance of \$16. The bottom line is that a retail sales tax gives you the same taxes as the MSST. Whether you get that faster under an MSST than in a retail sales tax is something you cannot state either way with certainty. It depends on the turnover of inventory. Is there a question on that illustration?

Page 1B tries to overcome the fear that somehow this tax will be borne by the manufacturer, wholesaler, or retailer. We are going to use the same example: currently the wholesaler has sales of \$150, purchases of \$100, gross margin of \$50. Under the new MSST scheme, very simply his sales figure increases by the \$12 tax; his purchases have gone up by \$8 to \$108. He owes the government \$4, \$50.

• 2030

I think there is a big fear that somehow the middleman will suffer under a multi-stage sales tax. Now obviously this assumes that the wholesaler can then turn around and collect the \$12 from the retailer.

The Chairman: In this particular illustration, have you not used the subtraction method for calculation?

Mr. Friedman: No, all we have done is—

The Chairman: Are you not going to subtract \$108 from \$162 to get—

Mr. Weyman: That is not the actual proposal, Mr. Chairman.

The Chairman: —\$54, and then multiply by 8 to get 8% of \$54, which is \$4?

Mr. Friedman: No, that is not what we are doing. All we are trying to prove is that the margin of the taxpayer—in this case, the wholesaler—is equal under a pre-MSST system and the MSST system.

Now, obviously this assumes that the wholesaler can then turn around and get the extra \$12 from the retailer. This should not be a problem because the retailer will get

[Traduction]

M. Friedman: Selon le système en vigueur, la taxe doit être versée le dernier jour de chaque mois, et à compter d'avril ou de mai prochain, le délai imparti sera de 22 ou 23 jours après la fin du mois.

Vous conservez néanmoins un délai de trois mois pour faire votre paiement. Mais c'est une autre question, que nous aborderons lorsque nous parlerons de l'administration.

Il faut bien comprendre que si les marchandises demeurent entre les mains du fabricant ou du grossiste, ou même du détaillant, cette taxe multi-stades n'est pas appliquée et, en fin de compte, vous vous retrouvez avec une taxe de vente au détail. Par conséquent, si vous suivez la marchandise du détaillant jusqu'au consommateur, le détaillant la vend 350\$, plus une taxe de 28\$ sur laquelle il y a un crédit de 12\$, ce qui donne un versement net de 16\$. En fin de compte, la taxe de vente au détail vous donne le même montant de taxe que la taxe de vente multi-stades. Il est impossible d'affirmer que le gouvernement percevra plus rapidement cette taxe multi-stades que la taxe de vente au détail. Cela dépend du roulement du stock. Avez-vous des questions à poser au sujet de cet exemple?

A la page 1B, nous essayons de démontrer qu'il n'y a pas lieu de craindre que le fabricant, le grossiste ou le détaillant paient la taxe de leurs poches. Prenons le même exemple: à l'heure actuelle, le grossiste revend 150\$ des marchandises qu'il a achetées 100\$, ce qui lui donne un bénéfice brut de 50\$. Avec la nouvelle taxe de vente multi-stades, 12\$ de taxe viennent s'ajouter à son prix de vente, et le prix auquel il a acheté sa marchandise passe à 108\$. Il doit au gouvernement 4\$ sur ces 50\$.

Certains craignent que l'intermédiaire ne fasse les frais de la taxe de vente multi-stades. Il faut, bien sûr, que le grossiste puisse à son tour faire payer les 12\$ au détaillant.

Le président: Dans cet exemple, avez-vous utilisé la méthode de la soustraction pour vos calculs?

M. Friedman: Non, nous avons simplement. . .

Le président: N'allez-vous pas soustraire 108\$ de 162\$ pour arriver à. . .

M. Weyman: Ce n'est pas ce qui est proposé, monsieur le président.

Le président: . . . 54\$, puis multiplier par 8 pour obtenir 8 p. 100 de 54\$, ce qui donne 4\$?

M. Friedman: Non, ce n'est pas ce que nous faisons. Nous essayons simplement de démontrer que la marge bénéficiaire du contribuable, c'est-à-dire, dans ce cas, le grossiste, demeurera la même avec la taxe de vente multi-stades.

Il faut, bien sûr, que le grossiste puisse, à son tour, faire payer les 12\$ de plus par le détaillant. Cela ne devrait pas poser de problème, étant donné que le détaillant

[Text]

an instant credit for this tax. His net purchase price will continue to be \$150. So the wholesaler sells to the retailer for \$162; the retailer can get the \$12 right away.

The Chairman: He does not get it back right away; he gets it back in his next filing period and when the machinery decides to pay the cheque.

Mr. Friedman: You are right. But at the same time, as a retailer, the cash registers will be ringing up higher sales that include the tax. So he has that in his hands as well.

The Chairman: I see.

Mr. Friedman: If you look back in the example, the only hitch might be if the retailer found that the customers were saying they do not want to pay \$378 for this good that used to cost them, say, \$350. Now, if his customers find that unpalatable, he may attempt to reduce his selling price partly by going back to his supplier and saying that his customers have a problem with this higher price.

Now, remember, what we have not taken into account is that this old good might or might not have been subject to federal sales tax, and it is unclear as to how the manufacturer or even the wholesaler or retailer will behave in passing on either a cost reduction or a cost increase.

Now, page 1-2 illustrates the difference between a provincial sales tax and an MSST. Generally, the Constitution allows provinces to tax only directly; the tax must be imposed directly on the purchaser and consumer, whereas the MSST is imposed on the vendor. As we said before, the provincial sales tax is collected only once from users. However, there are certain situations where it may be collected more than once; for example, if you are a retailer and you are selling taxable goods. If you buy store fixtures, the store fixtures will have been subject to provincial sales tax. That obviously has to be built into the selling price of your taxable goods, and therefore it is subject to tax again, whereby in an MMST it is collected on all sales and refunded at the next trade level.

Some provinces are more generous than others on business inputs, and they will give you exemption for manufacturing and processing equipment. Other provinces will not. The business inputs vary by province. Under an MSST, credit is granted for all business inputs. Generally, all the provinces will exempt raw materials and work in process as business inputs.

Now, because the tax is a direct tax, the tax must be shown. It must generally be broken out. Under an MSST, the choice exists either to show the tax or to bury it. Some provinces exempt food, children's clothing, furniture, hotel accommodations, unsalted peanuts, six or more doughnuts, what have you. It depends on the province,

[Translation]

obtiendra un crédit de taxe instantané. Son prix d'achat net sera toujours de 150\$. Par conséquent, le grossiste vend la marchandise 162\$ au détaillant, lequel récupère immédiatement ses 12\$.

Le président: Il ne les récupère pas immédiatement; il doit attendre sa prochaine période de déclaration et il doit attendre également que l'appareil administratif décide de lui envoyer son chèque.

M. Friedman: C'est exact. Mais en même temps, le détaillant encaissera un prix de vente plus élevé, qui comprendra la taxe. Par conséquent, cet argent sera entre ses mains.

Le président: Je vois.

M. Friedman: Si nous reprenons cet exemple, il n'y aurait de problèmes que si les clients du détaillant refusaient de payer 378\$ pour une marchandise qu'ils avaient l'habitude de payer 350\$, par exemple. Si ses clients rechignent, le détaillant cherchera peut-être à réduire son prix de vente en allant voir son fournisseur pour lui dire que ses clients n'acceptent pas cette hausse de prix.

Néanmoins, nous n'avons pas tenu compte du fait que cette marchandise a peut-être été assujettie à la taxe de vente fédérale et que nous ignorons comment le fabricant, ou même le grossiste ou le détaillant, procéderont pour transférer la réduction ou l'augmentation de leur prix de revient au maillon suivant de la chaîne.

La page 1-2 illustre la différence entre la taxe de vente provinciale et la taxe de vente multi-stades. En général, la constitution n'autorise les provinces qu'à percevoir des impôts directs; la taxe doit être imposée directement à l'acheteur et au consommateur, tandis que la taxe de vente multi-stades est imposée au vendeur. Comme nous l'avons déjà vu, la taxe de vente provinciale n'est perçue qu'une seule fois. Cependant, il arrive qu'elle le soit plusieurs fois. Par exemple, si un détaillant qui vend des marchandises taxées achète de l'équipement pour son magasin, il devra payer la taxe de vente provinciale sur cet équipement. Cette taxe sera certainement incluse dans le prix de vente des marchandises taxées, si bien que ce montant sera de nouveau taxé, alors que la taxe de vente multi-stades est perçue sur toutes les ventes et remboursée au stade suivant.

Certaines provinces sont plus généreuses que d'autres à l'égard des intrants et accordent une exonération pour le matériel de fabrication et de transformation. D'autres provinces ne le font pas. Les intrants exonérés varient d'une province à l'autre. Avec la taxe de vente multi-stades, le crédit est accordé pour tous les intrants. En général, toutes les provinces exonèrent les matières premières et le travail non terminé.

Comme cette taxe est un impôt direct, son montant doit être indiqué. Généralement, il faut le séparer du prix de vente. La taxe de vente multi-stades permet d'indiquer le montant de la taxe ou de le cacher dans le prix de vente. Certaines provinces exonèrent les produits alimentaires, les vêtements pour enfants, le mobilier, les

[Texte]

and the exemptions vary. Under a broad-based MSST, all goods would be taxed.

• 2035

Now, the province can only tax within its boundaries. Generally it cannot force parties outside its borders to withhold provincial sales tax. At least the federal government has the power to tax all across Canada. While goods exported outside the provincial boundaries are not subject to tax, the tax on business inputs are not creditable under a provincial sales tax scheme and the tax on business inputs remains part of the export price. Under an MSST, the tax content of exports is eliminated.

Page 1-3 compares federal sales tax with an MSST. Generally, the federal sales tax, with very limited exceptions, is paid only once. It is a manufacturers' tax that in the 1980s gradually has moved to the wholesale level. So for want of a better description, it is a manufacturers sales tax applied at the wholesale level.

Since the early 1980s, and increasingly so, goods like cosmetics, health goods, candy and confectionery, pet litter, electronic goods, cars, pet foods, gasoline, are taxed at the wholesale level. At July 1, 1988, added to the list are household chemicals, toys, games, sporting goods and audio tapes. In addition—

The Chairman: That is possible, but not necessarily.

Mr. Friedman: That is just based on—

The Chairman: That is assuming what is in the white paper stays in the white paper, having been altered once already.

Mr. Friedman: That is correct, yes.

The Chairman: Yes.

Mr. Friedman: In addition, and I guess what this chart does not say, is that the federal sales tax also exists on certain services at the retail level, on airline transportation, cable television, pay-TV and telecommunication services. The tax, and we alluded to this before, generally remains the responsibility of the vendor or importer. Under an MSST it is imposed on the vendor.

Under a federal sales tax, generally exemption only for limited business inputs, generally again, manufacturing equipment used directly and primarily in manufacturing.

[Traduction]

chambres d'hôtel, les arachides non salées, les beignes vendus à la demi-douzaine, et ainsi de suite. Les exonérations varient d'une province à l'autre. Avec une taxe de vente multi-stades d'application générale, tous les bien seraient taxés.

Une province ne peut percevoir des taxes que sur son territoire. En général, elle ne peut pas obliger les commerçants installés à l'extérieur de ses frontières à percevoir, en son nom, la taxe de vente provinciale. Quant au gouvernement fédéral, son pouvoir d'imposition s'étend à tout le Canada. Les marchandises exportées en dehors de la province ne sont pas assujetties à la taxe, mais la taxe sur les intrants ne donne pas droit à un crédit en vertu du régime provincial de taxe de vente, et elle demeure incluse dans le prix des exportations. La taxe de vente multi-stades ne s'applique pas aux exportations.

La page 1-3 établit une comparaison entre la taxe de vente fédérale et la taxe de vente multi-stades. En général, la taxe de vente fédérale n'est payée qu'une seule fois, à quelques rares exceptions près. Il s'agit d'une taxe au niveau du fabricant qui, dans les années 80, a été graduellement transférée au niveau du gros. Par conséquent, faute de meilleure description, je dirais qu'il s'agit d'une taxe de vente au niveau du fabricant qui s'applique au niveau du gros.

Depuis le début des années 80, les marchandises comme les cosmétiques, les articles d'hygiène, la confiserie, les litières pour animaux domestiques, les appareils électroniques, les automobiles, les aliments pour animaux domestiques et l'essence sont taxées au niveau du gros. À compter du 1^{er} juillet 1988, les produits chimiques ménagers, les jouets, les jeux, les articles de sport et les cassettes audio s'ajouteront à cette liste. En outre, . . .

Le président: Peut-être, mais pas nécessairement.

M. Friedman: Nous nous fondons simplement sur. . .

Le président: C'est vrai à la condition que la teneur du Livre blanc ne soit pas modifiée une fois de plus.

M. Friedman: C'est exact.

Le président: En effet.

M. Friedman: De plus, et je suppose que ce diagramme ne le dit pas, la taxe de vente fédérale s'applique déjà, au niveau du détail, à certains services, comme les transports aériens, la câblodistribution, la télévision payante et les services de télécommunication. Comme nous l'avons déjà mentionné, la taxe doit généralement être perçue par le vendeur ou l'importateur. Quant à la taxe de vente multi-stades, elle doit être payée par le vendeur.

En ce qui concerne la taxe de vente fédérale, en général, seuls certains intrants sont exonérés, à savoir le matériel utilisé directement et principalement pour la

[Text]

Under MSST it is proposed that there be credit for all business inputs.

Now, there is no requirement to break out the tax under a federal sales tax system. In fact, you are encouraged to bury the tax. The tax in most cases does not even bear a relationship to the price at which the goods are being sold because of a number of deductions that are available both within and without the statute. Under an MSST you have the choice again of showing or burying the tax.

There are a large number of exemptions by type of goods, by consumers or by end use. Goods like most food and most clothing are exempt from federal sales tax. Goods used in farming and manufacturing are exempt and because of the nature of the purchaser goods that are exempt are goods sold to hospitals, certain goods sold to schools or to municipalities.

Currently there are three rates of federal sales tax—four if you count zero—8% for construction materials, 12% for general goods and 18% for cigarettes and alcoholic beverages. Under a multi-stage sales tax, I have a question mark. Currently only one rate is proposed but if you look at the summary of the manner in which countries tax in Europe, a number of rates could ultimately be introduced if desired.

The Chairman: That is one of the problems. You cannot get at the gasoline and the alcohol, the tobacco and so on at a decent high rate this way, can you, if you have a flat rate?

Mr. Friedman: Unless you propose continuing with a stamp tax or an excise tax in addition.

The Chairman: Or a surtax on them.

Mr. Friedman: Yes.

The Chairman: Or a non-deductible or a non-refundable tax.

Mr. Friedman: All of these are available to you, and I believe there are certain higher taxes or additional taxes on luxuries in some of the European countries as well. So that is an opportunity as well. Federal sales tax—

[Translation]

fabrication. Selon les propositions relatives à la taxe de vente multi-stades, un crédit serait accordé pour tous les intrants.

La taxe de vente fédérale n'oblige pas à indiquer le montant de la taxe. En fait, le système en vigueur vous incite à cacher cette taxe. Dans la plupart des cas, il n'y a même pas de rapport entre la taxe et le prix auquel les marchandises sont vendues en raison des déductions autorisées par la loi et d'autres dispositions. La taxe de vente multi-stades vous permet d'indiquer le montant de la taxe ou de le cacher, selon votre préférence.

Il existe un grand nombre d'exemptions accordées en fonction de la catégorie de marchandises, de consommateurs ou d'utilisation. La plupart des produits alimentaires et des vêtements, par exemple, sont exemptés de la taxe de vente fédérale. Les biens utilisés pour l'agriculture et la fabrication sont exonérés et, en raison de la nature de l'acheteur, certains biens vendus aux hôpitaux, aux écoles ou aux municipalités sont également exemptés.

À l'heure actuelle, il y a trois taux différents pour la taxe de vente fédérale, ou même quatre si vous comptez le taux de zéro: 8 p. 100 pour les matériaux de construction; 12 p. 100 pour les marchandises générales et 18 p. 100 pour les cigarettes et les boissons alcoolisées. Je me demande ce qu'il en sera avec la taxe de vente multi-stades. À l'heure actuelle, le gouvernement ne propose qu'un taux, mais si vous examinez la façon dont les pays européens imposent cette taxe, il serait possible d'instaurer plusieurs taux.

Le président: Cela pose un problème. Si vous avez un taux uniforme, pouvez-vous avoir un taux suffisamment élevé pour l'essence, l'alcool et le tabac?

M. Friedman: À moins que vous ne vouliez continuer à imposer une taxe d'accise supplémentaire.

Le président: Ou une surtaxe.

M. Friedman: Oui.

Le président: Ou encore une taxe non déductible ou non remboursable.

M. Friedman: Ce sont là plusieurs possibilités, et je crois que certains pays européens imposent également des taxes plus élevées ou supplémentaires sur les articles de luxe. C'est donc une possibilité. La taxe de vente fédérale. . .

• 2040

The Chairman: Before you go on here, the federal sales tax has been badly criticized. Is there any way of fixing it up? I mean, we have the three top experts here. Can we fix this present tax up and forget the whole thing? Suppose we added the clothing and the footwear and the rest of it into the tax base and collected some more revenue that way, and suppose we moved it all to the wholesale level and had a special rate for large retailers. Would that be so difficult? We would have a nice buried

Le président: Avant de vous laisser poursuivre, je tiens à dire que la taxe de vente fédérale a fait l'objet de nombreuses critiques. Existe-t-il un moyen de l'améliorer? Nous avons ici trois grands experts. Est-il possible d'améliorer la taxe en vigueur et de laisser tomber ces propositions? Supposons que nous ajoutions le vêtement et la chaussure, de même que tout le reste, à l'assiette fiscale, ce qui permettrait d'augmenter les recettes, que cette taxe serait entièrement transférée au

[Texte]

tax then and we would still collect our revenue and we would not upset the populace by letting them know they are being hosed by this terrible tax. We could even put the tax on accounting bills, legal bills, and so on. Nobody would object to that.

Mr. Friedman: No. I think more learned men—and I do not want to speak for Peter Wood and Lorey Hoffman—have tried over the last 50 years to correct the tax: the wholesale tax committee, the Carter commission; it goes back to, I am not sure if I was born, the Rowell-Sirois committee. I think they have all tried, but what they have done is just added more complexities to it. They have added some things taxed at the wholesale level, they have added fair market value rules, and it is becoming more and more complex. I think most tax practitioners speak with good intentions and would have come up with solutions to the problem, but I think the belief is that the best solution to the problem is a retail sales tax of one form or another.

Peter, do you have anything to add?

Mr. Wood: I would agree that it is impossible under a federal sales tax to fully relieve the tax on business inputs, and that is one of the problems if we want to be competitive internationally and have proper allocation of resources. We have to be able to relieve the tax on the business input so that the sales tax content ends up being the same percentage of the final selling price of goods, or completely out, completely relieved of direct and indirect taxes where the goods are moved to the international marketplace.

Mr. Weyman: Gentlemen, I might add too that I think that unless the tax does extend to the retail level, the sales tax, it is also virtually impossible to eliminate the problems between imported goods and goods produced in Canada, because the only place in the whole business cycle where you can reach a parity is at the retail level. Whether the goods have been made in Canada or imported into Canada, that is where you get the neutral position. So any tax imposed would bear equally on goods from both sources. Anything further back from that, any stage prior to the retail level, you are going to have some distortion creep in, if you like, between the imported goods and the domestically produced goods.

Mr. Friedman: I guess the question is what do you want from the tax? If you want the principles elucidated in the first section of the sales tax reform book, then there really is no solution. If you want to raise a lot of money with an imperfect and unfair tax, the present tax will do it.

It is interesting you say that, because the next three items on this list on federal sales tax very clearly illustrate what some of the problems are. Variable percent tax

[Traduction]

niveau du gros, et que nous établissions un taux spécial pour les détaillants importants. Serait-ce très difficile? Si nous avions une taxe cachée au niveau du grossiste, nous pourrions continuer à percevoir nos recettes fiscales sans faire peur à la population avec cette terrible taxe. Nous pourrions même taxer les honoraires des comptables et des avocats, par exemple. Personne n'y verrait d'objection.

M. Friedman: Non. Je pense que des gens plus compétents que moi—je ne parle pas pour Peter Wood et Lorey Hoffman—ont essayé, depuis 50 ans, d'améliorer la taxe. Nous avons eu le comité sur la taxe au niveau du gros, la Commission Carter, et même la Commission Rowell-Sirois, qui a étudié la question quand je n'étais même pas encore né; je n'en suis pas certain. Tous ont essayé d'améliorer la taxe, mais ils n'ont fait que la rendre plus complexe. Ils ont ajouté certains articles taxés au niveau du gros, ils ont instauré les règles de la juste valeur marchande, et cette taxe est devenue de plus en plus complexe. La plupart des fiscalistes sont pleins de bonnes intentions et prêts à proposer des solutions, mais tous s'accordent à croire, je pense, que la meilleure façon de résoudre le problème consiste à avoir une taxe de vente au détail sous une forme ou une autre.

Peter, avez-vous quelque chose à ajouter?

M. Wood: Je reconnais qu'une taxe de vente fédérale ne permet pas d'exonérer entièrement les intrants et qu'il s'agit là d'un des problèmes à résoudre si nous voulons soutenir la concurrence internationale et bien répartir nos ressources. Nous devons pouvoir exonérer les intrants afin que la taxe de vente représente le même pourcentage du prix de vente final des marchandises ou que les taxes directes et indirectes soient complètement supprimées lorsque les marchandises sont exportées.

M. Weyman: Messieurs, j'ajouterai qu'à moins que la taxe de vente ne s'étende au niveau du détail, il est pratiquement impossible d'éliminer le problème que posent les marchandises importées par rapport aux marchandises produites au Canada, étant donné que, le niveau du détail représente le seul maillon de la chaîne où vous pouvez parvenir à la parité. Que les marchandises aient été fabriquées au Canada ou importées, c'est à ce stade que vous parvenez à un niveau de neutralité. Par conséquent, toute taxe imposée à cette étape s'applique de la même façon aux marchandises canadiennes ou importées. A tout stade antérieur au niveau du détail, vous créez une certaine distorsion entre les produits importés et les produits nationaux.

M. Friedman: La question est de savoir quel est le but recherché. Si vous voulez respecter les principes énoncés dans la première partie du Livre blanc sur la réforme de la taxe de vente, il n'y a pas de solution. Par contre, si vous voulez recueillir beaucoup d'argent au moyen d'une taxe imparfaite et injuste, la taxe actuelle vous permet de le faire.

Vos observations sont intéressantes, étant donné que les trois questions suivantes que nous examinons à propos de la taxe de vente fédérale donnent une bonne idée de

[Text]

content, depending on route to retailer, whether imported or not—

The Chairman: Sure.

Mr. Friedman: —and the problem is that the ultimate percentage tax content of consumer goods may vary depending on how it gets to the retailer. We have talked about this before. Goods manufactured in Canada, as David says, bear one absolute amount of tax, and others which are imported bear a lower amount of tax, given the same selling price.

• 2045

There is also something I like to call a “floating tax base”. The Excise Tax Act and, for want of a better word, some administrative rules that have crept in over the last 50 years allow things like transportation, installation, cash discounts, volume rebates, and other miscellaneous discounts to be taken off the tax base before the manufacturer or wholesaler computes his tax.

The Chairman: Will that not happen anyway?

Mr. Friedman: No, I do not think so.

The Chairman: Why would it not happen in an MSST? Surely you would organize your sale, or you would get a... It just changes the rebate on the selling price, does it not?

Mr. Friedman: No. In this situation, under a federal sales tax, the theory behind it is that you only tax the good. You do not tax the installation attached to it; you do not tax the transportation.

Cash discounts, if you ultimately reduce the price, will fall out of the value-added tax system as well, but transportation and installation and other services will be trapped. So there is that floating base, and it is unfortunate that some taxpayers know more about that floating base than others and therefore the more you know—

Mr. Layton: The less you pay.

Mr. Friedman: —the less you pay.

On the systems administrative bound versus statute bound for MSST, there are two vehicles you will not find in the Excise Tax Act, called determined values and established values. If we had three or four hours, then we could talk about how determined values are built. Very simply, if I am a manufacturer and I sell say to a retailer, and I do not sell to wholesalers but my competition does, then I can go to Revenue Canada, and by a mysterious process, within a period of time Revenue Canada will or will not come back to me and say you do not have to pay tax on selling price but you can pay tax on selling price less an x percentage to make you equal to your competition.

[Translation]

certains problèmes. Le montant de la taxe varie selon le nombre d'intermédiaires qui interviennent entre le fabricant et le détaillant, qu'il s'agisse de marchandises importées ou non...

Le président: Certainement.

M. Friedman: ... le problème, c'est que le montant de la taxe qui entre dans le prix final des biens de consommation peut varier selon la façon dont la marchandise est parvenue jusqu'au détaillant. Nous en avons déjà parlé. Comme l'a dit David, la taxe sur les produits fabriqués au Canada s'élève à un certain montant, et elle est moins élevée sur les marchandises importées, qui sont vendues au même prix.

Il y a également ce que j'appellerais l'«assiette fiscale flottante». La Loi sur la taxe d'accise et, faute de meilleur mot, certaines règles administratives adoptées depuis 50 ans, permettent au fabricant ou au grossiste de déduire certains frais comme le transport, l'installation, les rabais pour paiement comptant, les rabais sur la quantité, et autres ristournes, avant de calculer sa taxe.

Le président: Ne continueront-ils pas à le faire de toute façon?

M. Friedman: Non, je ne le crois pas.

Le président: Pourquoi la taxe de vente multi-stades ne permettrait-elle pas de le faire? Vous pouvez certainement organiser votre vente ou obtenir... Cela modifie simplement le rabais sur le prix de vente, n'est-ce pas?

M. Friedman: Non. En pareil cas, suivant le principe de la taxe de vente fédérale, vous ne taxez que la marchandise. Vous ne taxez pas l'installation ni le transport.

La TVA ne s'appliquera pas aux rabais qui réduisent le prix de vente, mais les frais de transport et d'installation, ainsi que les autres services, n'y échapperont pas. Par conséquent, l'assiette de la taxe est flottante, et il est regrettable que certains contribuables soient mieux au courant que d'autres, car plus vous en savez...

M. Layton: Moins vous payez.

M. Friedman: ... moins vous payez.

Pour ce qui est des systèmes administratifs par opposition aux systèmes législatifs, il existe deux principes que vous ne trouverez pas dans la Loi sur la taxe d'accise, soit les valeurs déterminées et les valeurs établies. Et si nous avions trois ou quatre heures devant nous, nous pourrions voir en quoi consiste la valeur déterminée. Pour vous expliquer la chose de façon fort simple, si je suis un fabricant qui vend des marchandises à un détaillant, si je ne vends pas aux grossistes alors que mes concurrents le font, je peux aller voir les agents de Revenu Canada et, au bout d'un certain temps, à l'issue d'un mystérieux processus, ces derniers viendront me dire que je dois payer la taxe non pas sur le prix de vente, mais

[Texte]

Some of these determined values are 20 or 30 years old. There are excise tax bulletins to provide for them. They are unappealable. You get them from the government. So it is an administrative bound rule.

Determined values are imposed by the government; established values are imposed by you. If you are a manufacturer and sell to wholesalers, but you also sell to retailers at a price that is higher than the price at which you sell to wholesalers, then providing certain conditions are met you can use the tax base as the tax base, your selling price to wholesalers for all of your sales.

There are conditions to be met, and again, if Revenue Canada does not appreciate the manner in which you have computed this tax, then they can reassess and there are no avenues of appeal.

So that is what we mean by administrative bound. I guess that is why I am asking how you fix the system when you have all of these rules.

The Chairman: It collects a lot of money, though, does it not?

Mr. Friedman: Yes.

Mr. Layton: Getting rid of it.

Mr. Friedman: Finally—and this is one of the concerns of exporters—there is a federal sales tax content of exports and it is hoped that the multi-stage sales tax would eliminate the tax content of exports. Questions to that point?

The Chairman: No, I think we are fine.

Mr. Friedman: I would like to get a copy, so maybe I will get Peter—

The Chairman: Do not worry. We have a clerk here who will get a copy.

Mr. Weyman: It says in the book, the sales tax reform publication of the government, that no fewer than 22,000 special provisions and administrative interpretations of the Excise Tax Act have been provided in an effort to achieve a reasonable degree of fairness and equity in the application of the tax.

• 2050

The Chairman: Okay.

Mr. Wood: The next line, 1-4, really just sets out the basic scheme of the government's proposals: who is liable, on what, and there is of course a timing question as to when they become liable for it.

So who is liable? The proposal says it is a person who is engaged in taxable activity. So there are some new terms here. A person has to be engaged in a taxable activity. When we dig deeper into the proposals, we find

[Traduction]

sur le prix de vente moins un certain pourcentage, pour que je me retrouve sur un pied d'égalité par rapport à mes concurrents.

Certaines de ces valeurs déterminées ont été établies il y a 20 ou 30 ans. Le gouvernement peut vous fournir des bulletins plutôt rébarbatifs à ce sujet. Par conséquent, il s'agit d'une règle administrative.

Les valeurs déterminées sont imposées par le gouvernement, tandis que c'est vous-même qui vous imposez les valeurs établies. Si vous êtes un fabricant qui vend à des grossistes, mais qui vend également à des détaillants à un prix plus élevé, si vous remplissez certaines conditions, vous pouvez calculer votre taxe, sur toutes vos ventes, en fonction de votre prix de vente aux grossistes.

Il y a certaines conditions à remplir et, encore une fois, si Revenu Canada n'aime pas la façon dont vous avez calculé cette taxe, il peut émettre un nouvel avis de cotisation qui sera sans appel.

Voilà donc ce que nous entendons par «règles administratives». C'est sans doute pourquoi je me demande comment on pourrait améliorer le système avec autant de règles.

Le président: Cela permet quand même de recueillir beaucoup d'argent, n'est-ce pas?

M. Friedman: En effet.

M. Layton: Si l'on s'en débarrasse.

M. Friedman: Enfin, et c'est notamment ce qui tracasse les exportateurs, la taxe de vente fédérale se retrouve dans le prix des exportations, et on espère que la taxe de vente multi-stades mettra fin à cette situation. Avez-vous des questions à poser à ce sujet?

Le président: Non, je pense que tout va bien.

M. Friedman: Je voudrais en avoir un exemplaire, et je pourrais peut-être demander à Peter. . .

Le président: Ne vous inquiétez pas. Notre greffier vous en donnera un exemplaire.

M. Weyman: Dans le Livre blanc du gouvernement sur la réforme de la taxe de vente, il est dit que la Loi sur la taxe d'accise a fait l'objet de 22,000 dispositions spéciales et interprétations administratives pour que la taxe puisse être appliquée de façon raisonnablement équitable.

Le président: D'accord.

M. Wood: La page suivante, 1-4, énonce les principes fondamentaux de la proposition gouvernementale: qui est assujetti, l'assiette de la taxe, et bien entendu, à quel moment une personne y est assujettie.

Alors, qui est assujetti à la taxe de vente? Selon la proposition, toute personne qui se livre à une activité taxable. On y trouve donc de nouveaux termes. Une personne doit se livrer à une activité taxable. Lorsqu'on

[Text]

that a taxable activity means it is somebody who is carrying on a business.

So it is very similar to the Income Tax Act concept: the person must be carrying on a business. If they are not carrying on a business, then they are not in the net. If it is just a hobby—I am building computers in my basement as a hobby and I sell a couple to friends—it is not a business, and I would not be in the net. It is very similar to the U.K. rules, where it has to be of a business type to be in, and the supply has to be for consideration.

There is also an exception for non-profit organizations, governments, and charities. They are, as we all know, generally exempt from income taxes. The government has said that these organizations, with respect to commercial sales, will be subject to the MSST rules. So it is commercial sales only; and we will be going into those in more detail tomorrow, when we look at that sector.

Supplies in Canada. You will see this term "supplies" used throughout the literature. What does "supplies" mean? It is really just an umbrella term for the sale of goods or services. The sale of goods or services is supplies. That term is also used in the U.K. literature. We will be using the term "supply" to mean the sale of goods or a service, or the provision of a service.

Timing. Generally speaking, when you get the cash, you become liable for it, or when the amount becomes receivable. There are of course a number of complicated rules, depending on the type of business you are in. For instance, it is different with real estate, of course, from with the sale of goods, different with services versus the sale of goods, and so on, as it is in all countries.

New Zealand takes a slightly different approach in casting its net. Rather than bringing people into the net if they are carrying on business, it brings people into the net for any activity carried on continuously or regularly, whether or not for profit. So we have emphasized those words. In New Zealand you do not have to be carrying on a business to be in the tax net.

Of course, what they are really saying is if you sit back and look at it, it is a value-added tax, it is not a tax on profits. Value added is something very different from profits, and non-profit organizations, for instance, can add value, even though they do not have profits. Because of the way they have cast the net here, non-profit organizations in New Zealand are in the net for virtually all their activities. It is quite different from this government's proposal.

Mr. Layton: Mr. Chairman, may I just introduce the question of other governments for a minute? Obviously

[Translation]

approfondit la proposition, on constate qu'une activité taxable signifie l'exploitation d'une entreprise par quelqu'un.

Cela se rapproche donc du principe de l'impôt sur le revenu des particuliers: la personne doit exploiter une entreprise. Si ce n'est pas le cas, elle n'est pas assujettie à la taxe. Si c'est simplement un passe-temps—si, pour tuer le temps, je construis des ordinateurs dans mon sous-sol et que j'en vends un ou deux à mes amis—ce n'est pas une entreprise, et je ne suis pas assujetti à la taxe. C'est fort semblable aux règles en vigueur au Royaume-Uni, où il faut exploiter une entreprise et vendre des fournitures pour être assujetti à la taxe.

On y exonère les organismes sans but lucratif, les gouvernements et les organismes de charité. Comme vous le savez, toutes ces organisations sont normalement exonérées de l'impôt. Selon le gouvernement, seules les ventes commerciales de ces organisations seront assujetties à la TVMS. Il s'agit donc seulement de leurs ventes commerciales; nous examinerons le détail demain, lorsque nous envisagerons ce secteur.

Fournitures au Canada. Vous allez rencontrer souvent ce terme «fournitures» dans toute la documentation. Que signifie «fournitures»? En fait, c'est un terme général pour la vente de biens ou la prestation de services. Les fournitures, ce sont les biens ou les services fournis. On emploie aussi ce terme au Royaume-Uni. Nous allons employer le terme «fournitures» pour signifier la vente de biens ou la prestation de services.

Echéancier. En général, lorsque vous êtes payé, vous devenez assujetti à la taxe, sinon au moment où le compte devient recevable. Il est évident que cela repose sur des règles complexes, selon la nature de l'entreprise que vous exploitez. A titre d'exemple, il faut distinguer, bien sûr, entre la vente d'immeubles et la vente de biens, entre la prestation de services et la vente de biens, et ainsi de suite, comme c'est le cas dans tous les pays.

En Nouvelle-Zélande, l'assiette de la taxe de vente est un peu différente. La taxe de vente s'applique non seulement aux exploitants d'entreprises, mais aussi à ceux qui exercent continuellement ou régulièrement toute activité, dans un but lucratif ou pas. Voilà pourquoi nous avons souligné cette expression. En Nouvelle-Zélande, point n'est besoin d'être exploitant d'entreprise pour être assujetti à la taxe de vente.

Bien entendu, on constate, à la réflexion, qu'il s'agit effectivement d'une taxe sur la valeur ajoutée, et non pas d'un impôt sur les bénéfices. La valeur ajoutée et les bénéfices sont deux choses bien différentes, et les organismes sans but lucratif, par exemple, peuvent avoir une valeur ajoutée, même s'ils n'ont aucun bénéfice. Vu les modalités de la taxe de vente en Nouvelle-Zélande, les organismes sans but lucratif y sont assujettis pour presque toutes leurs activités. Voilà en quoi ce système diffère de celui de la proposition gouvernementale.

M. Layton: Monsieur le président, pourrait-on discuter un moment des autres gouvernements? De toute évidence

[Texte]

neither the provincial nor the municipal levels of government are in business for profit. So there is a sense here of a kind of a tax which, having been paid, will then be required to be repaid by the federal government. We, as a federal government, lay taxes on the provinces on what they buy in services and goods, or the municipalities, who in turn are supported by their own tax base, but also by the provinces. We sit back and say, well, as a result of being the senior government, there will be a repayment to equalize conditions in Canada. There are all kinds of ways in which this government transfers funds to the provincials.

I find myself saying all right, if we now charge taxes on all the goods they buy then we are collecting taxes to return to them. It is our own money we are spending, in a sense, because their costs will go up and we will presumably, to give them the same deal they have had, be obligated to pay it right back to them. I presume we are talking hundreds of millions, maybe billions, of dollars in this respect.

Does it really make sense to have a sales tax on other levels of government when we support those other levels of government?

Mr. Wood: As you know, under the current federal sales tax and the provincial sales tax, there is a federal-provincial agreement. Other than Alberta and I think one of the other western provinces, there is participation. Each agrees to pay each other's taxes, and then there is a settling out.

• 2055

You are quite right. There are some adjustments that would be required, depending on the estimates. But as we will see tomorrow, there are some other reasons why governments would want to be in the system. Very often governments are dealing with business purchasers of the goods who will want a credit, so when they buy, even though it is from a provincial government, they will want a credit for the MSST that is in that good. For example, take a provincial liquor board. If a restaurant bought booze, then the restaurant presumably would want to be able to take a deduction for the booze it had bought from the provincial liquor board. If the liquor board were not in the system and collecting the MSST, then there would be no deduction to the restaurant for MSST purposes.

Mr. Layton: The liquor board being in a sense a Crown asset of the province.

Mr. Wood: Yes. Another example is some of the provincial hydro companies. They sell a great deal of—

The Chairman: Why do we not talk about a municipal hydro company that is selling electricity municipally to the ratepayers and is presumably owned by the

[Traduction]

ni les provinces ni les municipalités ne visent un but lucratif. En un sens, c'est un genre d'impôt qui, une fois versé, devrait être versé à nouveau par le gouvernement fédéral. On sait que le gouvernement fédéral taxe les provinces et les municipalités sur leurs achats de biens et services, lesquelles, en retour, ont leur propre assiette fiscale, quoique les provinces viennent en aide aux municipalités. Faisant partie du palier supérieur de gouvernement, nous faisons en sorte qu'il y ait remboursement, afin d'égaliser les conditions au Canada. Le gouvernement a bien des façons de transférer des fonds aux provinces.

Alors je me dis: bon, quoique nous imposons tous les biens qu'elles achètent, nous levons des impôts afin de les rembourser. En somme, c'est notre propre argent que nous dépensons, car, lorsque leurs coûts augmentent, il faut croire que nous allons continuer à respecter les mêmes conditions du marché et, par conséquent, les rembourser dans la même mesure. J'imagine qu'il y a des centaines de millions, voire des milliards, de dollars en cause.

N'est-ce pas absurde d'imposer une taxe de vente aux autres paliers de gouvernement alors qu'il nous faut ensuite leur accorder une aide financière?

M. Wood: Comme vous le savez, selon les régimes actuels de taxe de vente fédérale et provinciale, un accord est intervenu entre le fédéral et les provinces. L'Alberta et une autre province de l'Ouest mises à part, je crois, il y a participation. Chacune s'engage à verser les impôts imposés par l'autre, puis on règle les comptes.

Mais vous avez parfaitement raison. Certains ajustements s'imposent, selon les prévisions budgétaires. Mais comme vous le verrez demain, il y a d'autres motifs pour lesquels les gouvernements voudraient adhérer à ces régimes. Les gouvernements font souvent affaire avec des acheteurs commerciaux de biens qui veulent avoir un crédit, c'est-à-dire que, lorsqu'ils achètent, même si c'est d'un gouvernement provincial, ils veulent avoir un crédit pour la TVMS qui s'applique à ces biens. A titre d'exemple, prenons le cas d'une régie provinciale des alcools. Lorsqu'un restaurant achète des alcools, il souhaite censément obtenir une déduction à l'égard des alcools qu'il s'est procurés auprès de la régie provinciale. Si cette régie n'adhère pas au régime, mais perçoit la TVMS, les restaurants ne pourraient alors obtenir aucune déduction pour ce qui est de leurs achats.

M. Layton: On peut dire que la régie des alcools fait partie de l'actif provincial de la Couronne.

M. Wood: C'est juste. Un autre exemple, ce sont les sociétés hydro-électriques provinciales. Elles vendent une bonne partie de...

Le président: Pourquoi ne parle-t-on pas des sociétés hydro-électriques municipales qui vendent de l'électricité aux contribuables municipaux, qui appartiennent

[Text]

municipality and is allegedly to operate on a non-profit basis? It is a distribution company.

Mr. Wood: Okay, that is a good one. Of course, even at that level a great deal of the power would be sold to business users, who again would like a deduction.

The Chairman: Of the majority of it, yes.

Mr. Wood: If that municipality with respect to that service participates in the system, that would mean that all its inputs, all the electrical distribution system required to deliver the hydro, would be exempt from the federal taxes. It would be collected on the sale to business users, who then would get a credit for the tax charged by that company.

The Chairman: Yes, I know. But everybody would be happier if they were not in the system, because if you bought the hydro from a municipality and there was no tax on that hydro, then why would you worry about that being a business input?

Mr. Wood: Because of all the indirect taxes buried in that system, because obviously the capital plant is very expensive. To the extent—

The Chairman: Whose plant is it? It happens to be the municipality's.

Mr. Wood: Sure, but I am just saying that to the extent that tax had been paid at previous stages—

The Chairman: But really, is this MSST not just really a value-added tax? If a person in the system is not required to charge a tax on their value added, then purchasers from them buy more cheaply than they otherwise would.

Mr. Wood: Not necessarily. If they just sold \$1 of hydro, but they have put \$10 million into capital plant that included an MSST of 8%, then they are paying more than they would otherwise. The idea is to relieve all those capital goods of the tax.

The Chairman: But surely to goodness you did not buy the \$10-million plant for the purpose of one month's sale of electricity?

Mr. Wood: No, I am just trying to use an extreme example.

The Chairman: You provide for electricity sales over many, many years. Surely to goodness, if it is a value-added tax then any person who buys from someone who must charge a value-added tax will pay more for the good they buy than they would if they were buying from somebody who did not have to charge a value-added tax.

Mr. Wood: It could be true for existing plant, but to the extent that the—

The Chairman: It must be true every time, must it not? It must be true all the time.

[Translation]

normalement à la municipalité et qui sont censées être des sociétés sans but lucratif? Ce sont des sociétés de distribution.

M. Wood: D'accord, c'est un bon exemple. Bien sûr, même à ce niveau, une bonne partie de l'électricité est vendue aux usagers commerciaux, qui souhaiteraient, eux aussi, obtenir une déduction.

Le président: Pour la majeure partie de leurs achats, oui.

M. Wood: Si, en l'occurrence, la municipalité adhère au régime, cela signifie que tous ses intrants, tout le système de distribution permettant de fournir l'électricité, seraient exonérés de l'impôt fédéral. La taxe serait perçue lors de la vente aux usagers commerciaux, qui obtiendraient alors un crédit à l'égard de la taxe imposée par la société hydro-électrique.

Le président: Oui, je sais. Mais tout le monde ne serait plus content si ces sociétés n'adhéraient pas au régime, car si l'électricité vous est vendue, sans taxe, par la municipalité, pourquoi alors vous inquiéter de ce que l'on en fasse un intrant commercial?

M. Wood: C'est en raison de tous les impôts indirects que recèle le régime, car les immobilisations elles-mêmes sont évidemment fort coûteuses. Dans la mesure où...

Le président: De quelles immobilisations parlez-vous? Elles appartiennent à la municipalité.

M. Wood: Certes, mais je disais que, dans la mesure où la taxe est versée à diverses étapes...

Le président: En réalité, la TVMS n'est-elle pas une taxe sur la valeur ajoutée? Si une personne adhérant au régime n'est pas tenue d'imputer une taxe sur la valeur ajoutée, le prix de revient est alors plus économique pour les acheteurs.

M. Wood: Pas nécessairement. Si la municipalité vend pour 1\$ d'électricité, alors qu'elle vient de déboursier 10 millions de dollars pour ses immobilisations, ce qui comprenait une TVMS de 8 p. 100, cela ne peut que faire augmenter le prix de revient. L'idée, c'est que toutes les immobilisations soient affranchies de cette taxe.

Le président: Ma foi, vous n'aménagez pas une centrale de 10 millions de dollars simplement pour vendre de l'électricité durant un mois?

M. Wood: Non, j'ai cité cet exemple comme un cas extrême.

Le président: Vous prévoyez des ventes d'électricité qui s'étalent sur bien des années. Ma foi, si c'est une taxe sur la valeur ajoutée, il est sûr que toute personne qui achète de quelqu'un qui est tenu d'imputer une taxe sur la valeur ajoutée va déboursier davantage que si elle achète de quelqu'un qui n'est pas obligé d'imposer une telle taxe.

M. Wood: C'est vrai pour une centrale existante, mais dans la mesure où...

Le président: C'est vrai dans tous les cas, n'est-ce pas? Il faut que cela soit toujours vrai.

[Texte]

Mr. Wood: No, it is not true all the time. To the extent that my capital costs go up because I am not relieved of the tax, I will try to pass that on through my selling price.

The Chairman: But eventually you have used up your capital costs, and then what do you do?

Mr. Wood: I would buy more when I wanted it to be exempt from the tax so—

The Chairman: You are assuming people are continually buying capital cost items that they do not need.

Mr. Weyman: Mr. Chairman, I think it also applies to all of the inputs of hydro—

Mr. Wood: Yes, not just the capital.

Mr. Weyman: —not just capital. Its every input would be taxable.

The Chairman: But if they do not have to charge tax on their value added, then presumably they can sell electricity more cheaply than the next guy who has to charge tax on his value added. If you have two electric companies side by side and one does not have to charge value-added tax and the other has to charge it, surely to goodness the one that does not have to charge it is going to sell more cheaply. Are you going to tell me that if you collect tax you can sell for less money than if you do not collect tax?

Mr. Wood: You could, sure:

The Chairman: Come on, guys, come on.

• 2100

Mr. Wood: Let us try this. The purchaser from the two hydro companies exports so he would be totally relieved of the tax break.

The Chairman: You want to muddy the water again. This particular hydro company cannot export. It sells hydro in the same municipality. There are two municipal hydro companies: one has to pay value-added tax and one does not. Now, which company is likely to be able to sell cheaper?

Mr. Weyman: The one that sells subject to tax.

Mr. Wood: Yes, the one that sells subject to tax. If am a business purchaser and I export everything, in the system I would be totally relieved of all the taxes. I do not care that the company charged me tax because I going to get a refund. My services are leaving the country and there will be no tax in the system anywhere on the cost of my inputs.

Mr. Weyman: I think it is important that we spend a moment on this.

[Traduction]

M. Wood: Non, ce n'est pas toujours vrai. Dans la mesure où mes frais d'immobilisations s'accroissent du fait que je ne suis pas exonéré de la taxe, je vais m'efforcer d'en tenir compte dans mon prix de vente.

Le président: Mais vous voulez rentrer dans vos frais à un moment donné, alors que faites-vous?

M. Wood: J'achèterais davantage, si je souhaitais être exonéré de la taxe, pour que. . .

Le président: Vous supposez que les gens font continuellement des dépenses en immobilisations qui sont superflues.

M. Weyman: Monsieur le président, je crois que ça s'applique à tous les intrants des sociétés hydro-électriques. . .

M. Wood: Oui, pas simplement aux immobilisations.

M. Weyman: . . . et non pas simplement aux immobilisations. Chaque intrant serait taxable.

Le président: Mais si les municipalités n'ont pas à imposer de taxe sur la valeur ajoutée, on peut croire que leur prix de vente de l'électricité sera plus bas par rapport à quelqu'un qui doit percevoir cette taxe. Si vous avez, côte à côte, deux sociétés d'électricité, dont l'une qui impute une taxe sur la valeur ajoutée et l'autre qui ne le fait pas, il me semble évident que cette dernière pourra vendre son électricité à un prix plus bas. Voulez-vous dire que si l'on perçoit la taxe, on peut vendre moins cher que si l'on n'est pas tenu de la percevoir?

M. Wood: C'est possible, certes.

Le président: Voyons, voyons, messieurs.

M. Wood: Mettons les choses ainsi. L'acheteur qui achète à ces deux sociétés exporte son électricité, de sorte qu'il est entièrement exonéré de cette taxe.

Le président: Vous ne faites encore que mêler les choses. Je parle d'une société hydro-électrique qui ne peut exporter. Elle vend l'électricité dans la même municipalité. Cette dernière compte deux sociétés hydro-électriques: l'une qui verse la taxe sur la valeur ajoutée, l'autre qui ne le fait pas. En toute probabilité, laquelle de ces deux sociétés va vendre son électricité au prix le plus bas?

M. Weyman: Celle dont les ventes sont assujetties à la taxe.

M. Wood: Exact, celle dont les ventes sont assujetties à la taxe. Si je suis un acheteur commercial qui exporte tout, je suis exonéré de toute taxe, au titre de ce régime. Peu importe si la société m'impose une taxe, je serai remboursé. Les services que j'achète sont destinés à l'étranger, de sorte qu'aucune taxe n'est imputée sur le coût de mes intrants en vertu de ce régime.

M. Weyman: Je crois qu'il est important que l'on consacre un petit moment à cette question.

[Text]

The Chairman: What about you, Mr. Friedman? Are you convinced?

Mr. Friedman: Yes, I have some examples—

The Chairman: You are convinced. All right.

Mr. Weyman: Mr. Chairman, as an example let us think of a Canadian business that is buying from a hydro utility which is exempt from the tax. Embedded in the price this Canadian business pays for the hydro is the tax cost that has gone into the inputs of that utility. Now, at the end of the line, when the consumer buys the goods from that business, he of course pays tax on the selling price. But included in that selling price along the way is this additional cost which is the cost of the tax on the inputs of the utility. However, if the utility is a taxable utility, the utility will get all the tax back on those inputs. In turn the business will get all the tax back which the utility paid on the hydro that it sold to that business. At the end, the consumer will only pay tax on a retail price that has no taxes included in it in the costs associated with it. That is the sort of fundamental distinction between having an intermediary business which is exempt and one which is taxable.

The Chairman: I am going back to page 1(a). Now, are you telling me that if the retailer who bought the goods for \$150 and sold them for \$350 did not have to charge tax, the person who purchased those goods from him would be worse off?

Mr. Wood: Why do you not go—

The Chairman: No, no. We can start right there. We will just draw a line there.

Mr. Wood: I agree, at that level.

The Chairman: All right. Now, he sells at \$350 and there is no tax. Obviously he absorbed the \$12 tax he paid, so we assume he then sells at \$362. He just gets his tax back instead of \$378. Now, I do not know, but I guess I would rather buy from the \$362 retailer than the \$378 retailer.

Mr. Wood: But that is as a consumer. Move it back—

The Chairman: That is right. We are talking about consumers because you started off this whole discussion by saying that this is a tax on consumers. The only people who pay this tax in the last analysis are ultimate consumers. Everybody else passes it off or shuffles it off or collects it back or whatever. The only people who ever pay are the ultimate consumers. Now, if the ultimate consumer does not have to pay all of the tax, then the ultimate consumer is better off. So he is obviously going to buy from somebody who does not have to charge him tax.

Mr. Weyman: That is only at the retail level.

[Translation]

Le président: Et vous, monsieur Friedman? Êtes-vous convaincu?

M. Friedman: Oui, je peux citer quelques exemples. . .

Le président: Vous êtes convaincu. Bon.

M. Weyman: Monsieur le président, à titre d'exemple, prenons le cas d'une entreprise canadienne qui achète de l'électricité non taxée. Le prix d'achat versé par cette entreprise comprend les taxes qui ont été appliquées aux intrants de la société hydro-électrique. Alors, en fin de compte, lorsque le consommateur achète les biens de cette entreprise, il doit évidemment payer la taxe applicable au prix de vente. Mais à ce prix de vente se sont ajoutés, en cours de route, les frais supplémentaires découlant des taxes imposées sur les intrants de la société hydro-électrique. Par ailleurs, si cette société est une entreprise taxable, elle sera remboursée de tous les impôts qu'elle a versés sur ces intrants. En retour, l'entreprise sera remboursée de tous les impôts que la société hydro-électrique a payés à l'égard de l'électricité qu'elle a vendue à cette entreprise. Finalement, le consommateur n'aura à payer la taxe que sur le prix de détail, qui ne comprend aucune taxe relativement au coût associé au produit vendu. C'est la distinction fondamentale qu'il faut faire entre une entreprise intermédiaire qui est exonérée et une entreprise qui est taxable.

Le président: Je reviens à la page 1a). Vous me dites que si le détaillant vend 350\$ des biens qu'il a payés 150\$ s'il n'a pas à imputer de taxe, la personne qui achète de ce détaillant sera alors désavantagée?

M. Wood: Pourquoi n'allez-vous pas. . .

Le président: Non, non. Commençons par cela. Traçons une ligne à ce point-là.

M. Wood: D'accord, à ce niveau.

Le président: Bon. Alors, le détaillant vend 350\$, sans taxe. Évidemment, il a absorbé la taxe de 12\$ qu'il a versée, mettons alors que son prix de vente est 362\$. Il récupère ainsi la taxe qu'il a versée, au lieu de 378\$. Je me trompe peut-être, mais j' imagine qu'entre 362\$ et 378\$, j'opterais pour le prix le plus bas.

M. Wood: Oui, mais en tant que consommateur. Revenez un peu en arrière. . .

Le président: C'est juste. Je parle des consommateurs, mais c'est vous qui avez commencé en disant qu'il s'agit d'une taxe imputée au consommateur. En fin de compte les seuls qui devront verser cette taxe, ce sont les consommateurs. Tous les autres la transmettent à quelqu'un d'autre ou se font rembourser par quelqu'un d'autre. Les seuls qui paient vraiment, ce sont les consommateurs. Mais si les consommateurs n'ont pas besoin de payer entièrement cette taxe, alors ils y gagnent au change. Il est évident que les consommateurs vont opter pour un détaillant qui ne leur compte aucune taxe.

M. Weyman: Seulement au niveau de la vente au détail.

[Texte]

The Chairman: They are the only people who pay tax in this system.

Mr. Weyman: In a multi-stage sales tax, if you have a utility which is equivalent to a wholesaler in this example on page 1(a), an intermediate stage business—there is a difference between whether it is exempt or taxable. In the case of an intermediate business in the chain, as opposed to—

The Chairman: Let us assume that is not the case. Let us suppose you are the centre guy—

Mr. Weyman: The wholesaler.

The Chairman: —and you have to pay \$108 for your stuff. You sell for \$150, plus \$8.

Mr. Weyman: No, not plus \$8.

The Chairman: Well, why not? You had to catch the money back somehow so you add the \$8 to your price. The person who purchased from you pays only \$158.

Mr. Friedman: In that case the purchaser would not get a credit for the \$8 so therefore his cost is up by \$150.

The Chairman: No, the wholesaler is going to have the \$8 because that is what he paid. He wanted to make the same margin.

Mr. Weyman: Sure.

• 2105

Mr. Wood: You know, we agree with you on the pricing, but when the retailer acquires it now he gets no deduction because the tax is locked in.

The Chairman: He does not worry about it.

Mr. Weyman: Sure he does.

Mr. Wood: He does.

Mr. Weyman: His costs are now \$158 instead of \$150.

The Chairman: No, they are \$158 instead of \$162.

Mr. Weyman: No, they are not \$162, they are \$150. If you look at the next page, that is exactly the point that was made.

The Chairman: They are \$158 because the wholesaler charged \$158.

Mr. Friedman: Well let me give you a choice. I can sell you something for \$162 and as soon as you get my invoice you can turn around and get \$12 back from the government or I can sell you goods for \$158 and you get nothing back. Which one would you take?

Mr. Weyman: That is the question.

The Chairman: Ah! Well it all depends on what I can sell the goods for, because if I do not have to charge sales tax from then on I am still better off.

[Traduction]

Le président: Dans ce régime, les consommateurs sont les seuls à payer cette taxe.

M. Weyman: Dans un régime de TVMS, si la société hydro-électrique est l'équivalent d'un grossiste dans l'exemple cité à la page 1a), soit une étape commerciale intermédiaire—les choses diffèrent selon qu'elle est exonérée ou taxable. Dans le cas d'une entreprise intermédiaire dans cette chaîne, par opposition à . . .

Le président: Mettons que ce ne soit pas le cas. Mettons que vous êtes l'intermédiaire. . .

M. Weyman: Le grossiste.

Le président: . . . et que votre prix d'achat est de 108\$. Votre prix de vente est de 150\$, plus 8\$.

M. Weyman: Non, pas 8\$ de plus.

Le président: Pourquoi pas? Vous devez vous rattraper d'une certaine façon, alors vous ajoutez 8\$ à votre prix de vente. La personne qui achète de vous n'a que 158\$ à verser.

M. Friedman: En l'occurrence, l'acheteur n'obtiendrait aucun crédit pour ces 8\$; c'est donc dire que ses coûts augmentent de 150\$.

Le président: Non, c'est le grossiste qui obtiendra les 8\$, car c'est le montant qu'il a versé. Il veut se garder la même marge de profit.

M. Weyman: Bien entendu.

M. Wood: Vous savez, nous sommes d'accord au sujet des prix, mais lorsque le détaillant achète, il n'obtient aucune déduction en ce moment, car la taxe est comprise dans le prix.

Le président: Il ne s'en fait pas pour cela.

M. Weyman: Bien sûr que si.

M. Wood: Bien sûr.

M. Weyman: Il doit payer 158\$ au lieu de 150\$.

Le président: Non, c'est 158\$ au lieu de 162\$.

M. Weyman: Non, ce n'est pas 162\$, c'est 150\$. Si vous jetez un coup d'oeil sur la page suivante, vous allez voir que c'est exactement ce que nous disons.

Le président: C'est 158\$, parce que le grossiste lui a vendu la chose 158\$.

M. Friedman: Je vous donne à choisir. Je vous vends quelque chose à un prix de 162\$; dès que vous recevez ma facture, vous réclamez un remboursement de 12\$ de la part du gouvernement; ou bien, je vous vends quelque chose à un prix de 158\$, et vous ne pouvez rien réclamer. Lequel des deux choisiriez-vous?

M. Weyman: Voilà la question.

Le président: Ah! C'est selon le prix de vente que je peux en obtenir, car si je n'ai pas à y imputer la taxe de vente, j'y gagne au change.

[Text]

Mr. Weyman: It does not matter to you, Mr. Chairman, if you can recover it, but it matters to the consumer. The consumer at the end will pay more.

The Chairman: The consumer never worries about the tax; he only worries about the net—what is the price. In most of these sales tax and VATs and so on the tax is precalculated in. There is a sign in the window indicating the VAT percentage, but all the prices include the tax.

Mr. Friedman: Well what are we really arguing?

The Chairman: Well who is talking about the consumer paying it; he pays it anyway. Obviously the less tax charged the better it is.

Mr. Weyman: Let me ask you a question, Mr. Chairman. May I ask you a question? Again, following Mr. Friedman's question, if there is a cost along the way of \$158 to a business instead of a cost of \$150, is not the end price going to be higher to the next stage? If you paid \$8 more for one of your inputs or any of your inputs are you not going to want to charge more to make the same profit?

The Chairman: Oh, sure.

Mr. Weyman: Then the consumer ultimately will pay more for the goods than he would have done if that intermediate business had been within the system.

The Chairman: Well that is assuming you have a final tax on the final price.

Mr. Weyman: Well we do; that is the multi-stage sales tax.

The Chairman: Okay.

Mr. Friedman: I mean, that is a good one.

The Chairman: I agree that if you have a break in the middle you have a cascading effect, but when your break is at the end you do not have any cascades.

Mr. Wood: You are quite right.

Mr. Weyman: Yes, that is right.

Mr. Friedman: I think before Peter starts again there are a couple of more examples, when he gets tired, that will go through in your hand that may help to clarify it or perhaps confuse it even more.

Mr. Wood: Okay, moving on to 1-5, a sales tax system or a MSST can be classified two ways; it can either be origin-based or destination-based. Origin-based means that the tax is imposed in the place where the goods or services originate. That is not what the government's proposal is; rather, it is a destination-based tax. You look where the goods and services end up. If they do not end up in Canada they are not taxed. If the goods are exported they are not taxed. If it was an origin-based tax, it does not matter where they end up in the world, they are taxed because they were created here. We are talking about a destination-based sales tax that is imposed—

[Translation]

M. Weyman: Peu vous importe, monsieur le président, si vous pouvez réclamer un remboursement, mais cela importe au consommateur. C'est le consommateur qui va payer plus, en fin de compte.

Le président: Le consommateur ne s'en fait jamais au sujet de la taxe, il s'en fait au sujet de l'assiette—au sujet du prix. La plupart du temps, la taxe de vente ou la taxe sur la valeur ajoutée est toujours comprise dans le prix. L'écriteau dans la vitrine vous donne le pourcentage de la TVA, mais tous les prix sont taxe comprise.

M. Friedman: On n'est pas d'accord sur quoi au juste?

Le président: On se demande si le consommateur est touché par cette taxe; il la paye de toute façon. Évidemment, moins il y a de taxe, plus il y gagne au change.

M. Weyman: Permettez-moi de vous poser une question, monsieur le président. Le puis-je? Suite à la question de M. Friedman, si le prix de revient pour l'entreprise est de 158\$ au lieu de 150\$, le prix de vente ne va-t-il pas augmenter à l'étape suivante? Si vous devez verser 8\$ de plus pour l'un ou l'autre de vos intrants, n'allez-vous pas accroître votre prix de vente, afin de réaliser le même bénéfice?

Le président: C'est certain.

M. Weyman: Alors le consommateur aura à payer davantage, en fin de compte, si le régime ne comporte aucune entreprise intermédiaire.

Le président: Oui, si l'on suppose qu'il y a une taxe finale sur le prix final.

M. Weyman: C'est ce que nous supposons; voilà ce qu'est la taxe de vente multi-stades.

Le président: D'accord.

M. Friedman: A mon sens, c'est une bonne taxe.

Le président: D'accord; s'il y a un palier intermédiaire, l'effet de cascade s'ensuit, mais si rien ne se produit avant la fin, cet effet disparaît.

M. Wood: Vous avez parfaitement raison.

M. Weyman: Oui, c'est tout à fait juste.

M. Friedman: Avant que Peter ne reprenne sa lecture, on pourra vous citer d'autres exemples, lorsqu'il se sentira fatigué, qui vont peut-être élucider la situation pour vous, sinon créer encore plus de confusion dans votre esprit.

M. Wood: Bon, passons à la page 1-5; un régime de taxe de vente ou une TVMS peut être classé de deux façons: selon la provenance ou selon la destination. Selon la provenance, la taxe est perçue à l'endroit d'où proviennent les biens ou les services. Mais la proposition gouvernementale n'est pas fondée sur la provenance, mais bien sur la destination. Le critère, c'est la destination des biens et services. Si la destination n'est pas au Canada mais à l'étranger, les biens et services ne sont pas taxés. Si des biens sont exportés, ils ne sont pas taxés. Si la taxe était axée sur la provenance, peu importerait la destination des biens, ils seraient taxés parce qu'ils ont été

[Texte]

Mr. Layton: Is that likely to run into any of the understandings we have on the trade agreement?

Mr. Wood: No.

Mr. Layton: There is no requirement that whatever is taxed on goods sold in Canada has to be taxed going out of Canada?

Mr. Weyman: Well we have relieved the other countries.

Mr. Wood: Yes, totally.

Mr. Layton: If something goes out of the country tax-exempt, is that not considered dumping in any sense under the new conditions?

Mr. Wood: Under GATT there is a specific provision to allow the rebate of internal taxes.

Mr. Lorey A. Hoffman (Individual Presentation): Mr. Chairman, I might add that there were a number of court challenges in the 1970s brought by American companies against certain European taxing jurisdictions on exactly this point, the argument being that somehow the VAT was a subsidy to European businesses in allowing their products to leave the country tax-free. None of those challenges were successful.

Mr. Wood: Just a few examples to illustrate the effect of destination-based. Personal property, if it is delivered or made available in Canada, is taxed here. A service, if it is performed in Canada, is taxed here. Real property, if it is situated in Canada, is taxed here. Imported goods brought into Canada get taxed here at the border generally. On the other hand, exports of goods or services are tax-free, and the business for all its inputs gets a credit for any taxes that were paid, and then it pays no tax whatsoever on its sales on its export of goods or services. The question is, where did the goods end up, or where was it consumed? As we will see in a moment, it is reasonably easy with goods but can be more difficult with services.

• 2110

Mr. Layton: Does it also get complicated where excise taxes apply, for instance in gas or oil or coal?

Mr. Wood: That is really a separate regime. There you could make it origin-based or destination-based.

Mr. Layton: Then that tax would still exist and be applied? You have never combined them?

Mr. Wood: The government documents are really silent on those. I said they are something to be looked at.

[Traduction]

produits ici. Nous parlons d'une taxe de vente axée sur la destination et qui est imposée. . .

M. Layton: Est-ce que cela risque d'entrer en conflit avec les accords commerciaux que nous avons conclus?

M. Wood: Non.

M. Layton: On n'exige jamais que les biens qui sont taxables lorsqu'ils sont vendus au Canada le soient aussi lorsqu'ils sont destinés à l'étranger?

M. Weyman: Non, ils sont exonérés dans les autres pays.

M. Wood: Oui, entièrement.

M. Layton: Si quelque chose est vendu à l'étranger sans taxe, n'est-ce pas ce que l'on appelle du dumping, selon les nouvelles conditions en vigueur?

M. Wood: Au titre du GATT, il y a des dispositions particulières concernant la détaxe sur le plan interne.

M. Lorey A. Hoffman (à titre personnel): Monsieur le président, je dois ajouter qu'un certain nombre de sociétés américaines ont intenté des poursuites, au cours des années 70, contre certains pays européens, justement au sujet de la détaxe, en arguant que la TVA était en quelque sorte une subvention fournie aux entreprises européennes, car elle permettait à leurs produits d'être détaxés à la frontière. Cet argument n'a pas été retenu par les tribunaux.

M. Wood: Je vais citer quelques exemples afin d'illustrer les effets de la taxe fondée sur la destination. Les biens personnels, s'ils sont livrés ou offerts au Canada, sont taxés au Canada. Un service qui est exécuté au Canada est taxé au Canada. Les biens immobiliers, s'ils sont situés au Canada, sont taxés au Canada. Quant aux produits importés au Canada, ils sont en général taxables à la frontière. Par ailleurs, les exportations de biens et services sont détaxées, elles donnent droit au crédit sur les intrants d'entreprise, de sorte que l'entreprise ne verse aucune taxe sur les biens ou les services qu'elle vend à l'exportation. Il faut se demander: où le bien ou le service a-t-il abouti, non pas où le bien ou le service a-t-il été consommé? Comme vous le verrez dans un instant, c'est un régime plutôt simple à l'égard des biens, mais un peu plus complexe à l'égard des services.

M. Layton: N'y a-t-il pas aussi des complications là où les taxes d'accise s'appliquent, pour l'essence, le pétrole ou le charbon, par exemple?

M. Wood: Il s'agit en l'occurrence d'un régime distinct. C'est un régime axé soit sur la provenance, soit sur la destination.

M. Layton: Donc, les taxes d'accise vont toujours exister et toujours s'appliquer? Elles ne vont pas se confondre avec la taxe de vente?

M. Wood: On n'en parle pas dans les documents du gouvernement. J'ai bien dit qu'il faudrait examiner cela.

[Text]

Mr. Layton: It could be a major concern when you talk of the kind of excise tax that might be applicable to gas or oil.

Mr. Wood: I am not sure on the gasoline tax, but I think most of the other ones are. On exports they are not exigible.

The Chairman: Well then, presumably you could have under our current system a formula rebate to manufacturers for the sales and excise taxes they have paid based on the quantum of goods they export could you not, or the value of the goods they export?

Mr. Wood: It could be quite complicated. Right now under the current regime your exports are totally exempt, at least on the sales side, but the manufacturer or whoever produced those goods has all sorts of taxes locked in on his inputs.

The Chairman: Why could he not be given a formula rebate based on his export value to cover those unaccountable or unrecoverable taxes?

Mr. Wood: It would be fair to some and not to others.

The Chairman: I know. But it would be very fair to make sure that you bonus your exports though, would it not?

Mr. Wood: But you bonus them even further with this proposal, the MSST, where all of the inputs are.

The Chairman: Instead of going to an MSST you had a form of retail sales tax, surely to goodness you could organize the rebate to exporters on a formula basis.

Mr. Wood: Sure. You could design all kinds of incentives to exporters.

Mr. Friedman: Unless I am mistaken, the papers do not address excise taxes at all.

The Chairman: I know they do not.

Mr. Weyman: You have, Mr. Chairman, what I think has been called this evening an administrative-bound tax system.

Mr. Layton: We will have them?

Mr. Weyman: You would have if you followed the chairman's suggestion, which I think we are trying to get away from.

The Chairman: It seems we are going to collect a lot of revenue this way.

Mr. Weyman: It is certainly good for the accounting profession too.

Mr. Wood: On the next page 1-6, discussion of imports and exports and why we have to distinguish between the two, it is because it is a destination-based tax. The result is that imports are taxable, whereas exports are tax-free. So we have to determine when we have an import and when we have an export. For goods it is relatively easy. It is the

[Translation]

M. Layton: Cela pourrait avoir beaucoup d'importance s'il s'agit de la taxe d'accise qui est imputée à l'essence ou au pétrole.

M. Wood: Je n'en suis pas sûr au sujet de l'essence, mais je crois que c'est le cas pour la plupart des autres produits. Même s'ils sont exportés, ils ne sont pas admissibles à la détaxe.

Le président: Bon, j'imagine que, en vertu du régime actuel, on pourrait instituer un barème de rabais pour les fabricants à l'égard des taxes de vente et des taxes d'accise qu'ils ont dû verser, barème qui pourrait être fondé sur le volume des biens exportés, n'est-ce pas, ou bien sur la valeur des biens exportés?

M. Wood: Cela pourrait devenir fort compliqué. Selon les régimes actuels, les exportations sont totalement exonérées, du moins s'il s'agit de ventes, mais le fabricant ou le producteur de ces biens doit verser une foule de taxes qui sont comprises dans ses intrants.

Le président: Pourquoi n'y aurait-il pas un barème de rabais fondé sur la valeur des biens exportés, afin de le dédommager de ces taxes inestimables ou irrécupérables?

M. Wood: Cela serait équitable pour certains et injuste pour d'autres.

Le président: Je sais. Mais il serait bien équitable de s'assurer que l'on accorde une prime pour les biens exportés, n'est-ce pas?

M. Wood: Oui, la TVMS constitue une prime encore plus intéressante, car elle touche tous les intrants.

Le président: Si l'on adoptait une taxe de vente au détail au lieu d'une TVMS, nul doute que l'on pourrait alors instituer un barème de rabais pour les exportateurs.

M. Wood: Certes. On pourrait imaginer toutes sortes d'encouragements pour les exportateurs.

M. Friedman: Sauf erreur, il n'est nullement question de la taxe d'accise dans ces documents.

Le président: Je le sais bien.

M. Weyman: Vous avez, monsieur le président, ce que l'on a appelé ce soir, je crois, un régime fiscal lié à l'administration.

M. Layton: On l'aura?

M. Weyman: Vous l'aurez si vous acceptez la proposition du président, ce à quoi nous essayons d'échapper, je pense.

Le président: Il appert que l'on pourra ainsi multiplier nos revenus.

M. Weyman: C'est aussi un bon régime pour les comptables.

M. Wood: À la page suivante, page 1-6, il est question des importations et des exportations, et pourquoi il faut distinguer entre les deux dans le cas d'une taxe de vente fondée sur la destination. Résultat, les importations sont taxables, mais pas les exportations. Alors il faut bien définir ce qu'est une importation et ce qu'est une

[Texte]

actual physical flow of the goods, so we know when we have imported a good that it is more difficult than a service.

What the proposals say in the case of goods is that at the time the business imported the good there would be tax paid at the border. Then with that return of that business they would take a credit for the tax paid at the border. So it just washes; there is no net tax out. When they take that good and sell it in the Canadian market, then there would be tax on that selling price. So it is a wash transaction really at the border: taxed at the border, and then a refund in the return of the business, and then tax on the domestic sale price of the good, just as if the good was domestically sourced.

On the other hand, if it is an export there is no tax on the export sale of the business, but the business gets a credit for all its inputs, capital services, and so on.

There is also hidden away in the documents a suggestion that it would be some sort of scheme for tourists, that for tourists who came here and bought goods and took the goods with them out of the country there would be some relief of the tax, although the mechanics are not clear in the paper.

The Chairman: The U.K. has such a thing.

Mr. Wood: Yes, the U.K. has that sort of system. There they put the obligation on the retailer—that as you take the goods out of the country you get customs to stamp them that say you have taken them out. You send the forms back to the retailer and the retailer makes an adjustment in his books. The other way of doing it... Ontario, for instance—

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The Chairman: Do you not just go to their sales tax outlet at the airport and—

Mr. Wood: That is just to prove that you have taken them out.

The Chairman: I see. Okay.

Mr. Wood: Then the paperwork actually... The rest of it gets done by the retailer with the government.

Mr. Layton: With a cheque to follow some months later.

Mr. Wood: Yes, whereas the Ontario system, for instance, works the other way. The tourist deals directly with the Ontario government and bypasses the retailer. He just gets the invoice from the retailer, sends it all on to the Ontario government, and then the Ontario government takes on the paper burden hassle and sends out the cheque. So the government documents say they will do it. There are just no details on which scheme they would use.

So in services, where is a service consumed if we are going to have a destination-based tax? With respect to

[Traduction]

exportation. C'est relativement facile dans le cas des biens. Il s'agit d'un mouvement physique effectif, mais si l'on sait qu'un bien est importé, c'est un peu plus difficile dans le cas d'un service.

Ce qui est proposé dans le cas des biens, c'est que les importations des entreprises soient taxées à la frontière. Ces importations donneraient toutefois immédiatement droit à un crédit. Somme toute, l'entreprise ne verserait aucune taxe. Lorsque l'entreprise mettrait le produit importé en vente sur le marché canadien, elle serait alors taxée sur le prix de vente. En résumé, tout s'égalise à la frontière: la taxe alors versée par l'entreprise lui serait remboursée, et la taxe de vente s'appliquerait sur le prix de vente au Canada, tout comme si le produit était de provenance interne.

D'autre part, dans le cas des exportations des entreprises, pas de taxe sur les ventes à l'étranger, mais un crédit sur tous les intrants, les services d'immobilisations, et ainsi de suite.

Il y a aussi une proposition qui est cachée dans ces documents, c'est-à-dire une sorte de régime pour touristes selon lequel les touristes qui achètent des biens ici et qui les ramènent à l'étranger seraient en quelque sorte exonérés de la taxe, mais le dispositif est loin d'être élucidé dans les documents.

Le président: Cela se fait déjà au Royaume-Uni.

M. Wood: Oui, le Royaume-Uni a déjà un tel régime. Mais on y impose cette obligation au détaillant—lorsque vous arrivez à la frontière, les douaniers estampillent les achats que vous sortez du pays. Vous expédiez la formule au détaillant, qui l'inscrit dans ses livres comptables. L'autre façon de procéder... en Ontario, par exemple...

Le président: Vous n'avez qu'à vous rendre à la boutique hors-taxe à l'aéroport et...

M. Wood: Simplement pour établir que vous prenez vos achats avec vous.

Le président: Je vois. D'accord.

M. Wood: Alors la paperasserie en fait... Le détaillant fait le reste en expédiant la formule au gouvernement.

M. Layton: Et vous recevez un chèque quelques mois plus tard.

M. Wood: Oui, tandis qu'en Ontario, on procède autrement. Le touriste traite directement avec le gouvernement de l'Ontario, sans passer par le détaillant. Il prend la facture du détaillant et l'envoie au gouvernement de l'Ontario, lequel s'occupe d'acheminer la formule et d'expédier les chèques. C'est la solution indiquée dans les documents du gouvernement. On n'y trouve toutefois aucun détail quant à la façon de faire.

Pour ce qui est des services, il faut se demander où les services seront consommés, s'il s'agit d'une taxe fondée

[Text]

imports, it is fairly academic because as we saw for businesses, it is just a wash transaction on goods. They pay it at the border. Then they get an immediate deduction. On services, if they could be taxed at the border, then there would just be a refund; it would just be a wash transaction. They are not, but it is the same result because the cost of those imported services ends up in the domestic selling price of that person's goods or of the price of his services, and we get the right result, that only the final domestic selling price to the consumer is taxed. So it is just a wash transaction, the service. The proposal is that they would not collect it and refund it because one cannot distinguish when a service has been imported, obviously.

Now, this could create a bias towards foreign services where you have a consumer or an exempt organization. A business would be neutral. They do not care, because that service, the cost of it, is going to end up in their selling price of their goods or services here in Canada. On the other hand, if there is no way to tax services at the border a consumer might have an interest in trying to buy a service directly from outside the country. For instance, I could go to Buffalo and get my hair cut, and that would be exempt, whereas if I had—

The Chairman: You might go to Buffalo and get an architect to draw your building up, though.

Mr. Wood: Sure. That is the—

The Chairman: That would be a substantial service, and how do you possibly catch that?

Mr. Wood: No, that is the kind of thing... At the moment there are, I know, proposals in these documents to deal with consumer imports. So there is a—

The Chairman: How would you suggest we catch it then? Forget the documents.

Mr. Wood: I think it is more serious probably with exempt organizations for the government itself, for instance. If it were exempt and it chose to hire an architect in Texas instead of a local architect, for a local architect there would be tax on the architect's fees. The Houston architect, no tax on the fees. There is a regime proposed in here where exempt entities who are most likely to be bringing in major purchases of services would be required to pay the tax that would otherwise have been payable if the source were of domestic—

The Chairman: But suppose they are not an exempt entity. They are householders. You do not pay tax anyway.

Mr. Wood: No, I agree—

The Chairman: You are a consumer. You are an ultimate consumer is where I see the concern.

[Translation]

sur la destination. Dans le cas des importations des entreprises, la question est sans portée pratique, car c'est simplement une transaction fictive sur des biens. La taxe, versée à la frontière, fera l'objet d'un remboursement immédiat. Les services qui seront taxés à la frontière seront également remboursés; cela revient à ne rien payer. S'ils ne le sont pas, le résultat est le même, car le coût des services importés figure dans le prix de vente, établi au Canada, des biens ou des services, ce qui permet d'atteindre le but visé, c'est-à-dire que la taxe ne s'applique qu'au prix de vente à la consommation au Canada. On propose donc de ne pas percevoir de taxe sur les services, pour la rembourser plus tard, car il est évident que l'on ne peut établir si un service a été importé.

Un tel régime pourrait inciter les consommateurs et les organisations exonérées à accorder la préférence aux services étrangers. À cet égard, une entreprise serait neutre. Peu lui importe, car le coût du service va toujours être compris de toute façon dans le prix des biens ou des services vendus au Canada. Par ailleurs, s'il n'y a pas moyen de taxer les services à la frontière, un consommateur peut estimer qu'il est dans son intérêt d'essayer d'acheter le service directement à l'étranger. Ainsi, je pourrais me rendre à Buffalo pour me faire coiffer, ce qui serait exonéré, alors que...

Le président: Vous pourriez aussi prendre un architecte de Buffalo pour dessiner votre bâtiment.

M. Wood: Certes. C'est la...

Le président: Ce serait alors un service considérable, mais comment peut-on déceler ce genre de chose?

M. Wood: Non, c'est le genre de chose... À l'heure actuelle, je sais que certaines propositions figurent dans ces documents au sujet des importations à la consommation. Il y a donc...

Le président: Que suggérez-vous afin de déceler ce genre de chose? Oubliez les documents.

M. Wood: Je crois que les incidents sont encore plus graves dans le cas d'organisations exonérées, comme le gouvernement lui-même, par exemple. Si le gouvernement opte pour un architecte du Texas, plutôt que pour quelqu'un de la localité, c'est que ce dernier devrait ajouter la taxe à ses honoraires, tandis que l'architecte de Houston ne serait pas tenu de le faire. Selon le régime proposé, les organisations exonérées, qui sont les plus susceptibles de faire venir des achats ou des services importants de l'étranger, seraient tenues de verser la taxe, tout comme si les biens ou services étaient de provenance interne...

Le président: Mettons qu'il ne s'agisse pas d'organisations exonérées, mais d'un simple particulier. Il n'aurait pas à verser la taxe de toute façon.

M. Wood: C'est juste.

Le président: Vous êtes un consommateur. Vous êtes le consommateur ultime; voilà ce dont il faut se soucier.

[Texte]

Mr. Wood: Sure. No, as I say, for an ultimate consumer there would be a saving if you could source the service from outside of Canada.

The Chairman: Secondly, even if you were very close to the end of the chain—in other words, you are somebody building your own office building, for example—you might be prepared. . . Since you are not going to be passing it on in rents, you really are the consumer of the building materials. Therefore, you just have an architect, that is all.

Mr. Wood: No. In the office building, of course, the rents would be taxable because that would be commercial rents, and—

The Chairman: But if you are occupying it yourself.

Mr. Wood: Then there would still. . . Oh, sorry, totally occupying it yourself?

The Chairman: Yes.

Mr. Wood: Again, it would not matter—

The Chairman: I build my own factory. I occupy my own factory. Now what do you do?

Mr. Wood: It is a business input. It does not matter. It would have been a wash transaction. If you had sourced it domestically, the architect would have charged you tax and you would have got a credit for it because your business—

The Chairman: How? Against what?

Mr. Wood: Against what?

Mr. Weyman: Against your business sales.

The Chairman: Oh, against my sales. Okay.

Mr. Wood: So it only matters, as you say, if you are a consumer or it is an exempt organization. That is where the bias would be, and the proposals suggest a sort of self-assessment system where it is an exempt entity and they are silent on how individual consumers might be treated.

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Mr. Layton: The phrase "exempt organizations" has crept in. It is the first time I think I have heard you use it tonight. Are we now talking of the whole scam? I can understand the federal government not paying itself tax. But we are already into the question of provinces, Crown corporations, municipalities, charitable organizations. Are we talking that exempt organizations are in the document to a large degree?

Mr. Wood: As I said earlier, and we had a discussion about it, by "exempt organizations" I meant all the ones you have just named, yes—other than their commercial supplies. Under these proposals their commercial supplies would be taxable.

[Traduction]

M. Wood: Certes. En fin de compte, cela constitue une épargne pour le consommateur ultime, s'il s'agit d'un service de provenance étrangère.

Le président: Deuxièmement, même si vous êtes presque au bout de la chaîne—autrement dit, vous vous occupez vous-même de la construction de votre bâtiment, par exemple—vous seriez peut-être disposé. . . Étant donné que vous n'allez pas l'assimiler à vos loyers, vous êtes effectivement le consommateur des matériaux de construction. Donc, vous prenez simplement un architecte, c'est tout.

M. Wood: Non. Dans un immeuble à bureaux, bien entendu, les loyers seraient taxables, car il s'agit de loyers commerciaux, et. . .

Le président: Mais si vous les occupez vous-même.

M. Wood: Alors il y aurait toujours. . . Pardon, les occuper totalement vous-même, voulez-vous dire?

Le président: Oui.

M. Wood: Encore une fois, peu importe. . .

Le président: Je construis ma propre usine. J'occupe ma propre usine. Que faites-vous alors?

M. Wood: Il s'agit d'un intrant commercial. Cela n'a aucune importance. Cela revient à une transaction nulle. Si le service est de provenance interne, l'architecte vous imputera la taxe, mais vous obtiendrez un crédit plus tard, étant donné que votre entreprise. . .

Le président: Comment? Par rapport à quoi?

M. Wood: Que voulez-vous dire, par rapport à quoi?

M. Weyman: Par rapport à vos ventes commerciales.

Le président: Ah, par rapport à mes ventes. D'accord.

M. Wood: Donc cela n'est important, comme vous dites, que si vous êtes un consommateur ou une organisation exonérée. Voilà où la préférence pourrait jouer; voilà pourquoi on propose une sorte de régime d'auto-évaluation, lorsqu'il s'agit d'une organisation exonérée, mais on n'y trouve aucune indication concernant les consommateurs.

M. Layton: L'expression «organisations exonérées» fait son chemin. C'est la première fois que je vous entends l'employer ce soir. S'applique-t-elle à tous les régimes? Je peux comprendre pourquoi le gouvernement fédéral ne veut pas payer de taxes. Mais il y a aussi les provinces, les sociétés de la Couronne, les municipalités, les organismes de charité. Ces organisations exonérées figurent-elles dans le document dans une grande mesure?

M. Wood: Comme je l'ai dit plus tôt, au cours de la discussion antérieure, j'entends par «organisations exonérées» toutes celles que vous venez d'énumérer, sauf s'il s'agit de leurs fournitures commerciales. D'après ces propositions, leurs fournitures commerciales seront taxables.

[Text]

Mr. Layton: The architect who works for the hospital—

Mr. Wood: That is exactly the kind of thing where there could be a bias towards—

Mr. Layton: Phew!

Mr. Wood: Or a university, a government, or a church. All those are examples of where there could be a bias for foreign sourcing.

Mr. Layton: The word "bias" suggests, in other words, something that needs to be corrected.

Mr. Wood: Yes; and I am saying there is a proposal to correct it, in that the hospital or the university or the government, if they did buy the service from a foreign professional, would be required to pay tax. Even though that professional does not have to pay the tax. . . Say the professional billed them \$100,000. Then the exempt organization would have to give the government—

Mr. Layton: Then the buyer.

Mr. Wood: The buyer would have to remit the 8% tax.

Mr. Layton: I can see somebody calling tenders. I was in the construction and architectural engineering business. I can see somebody calling tenders and the boys across the border in Plattsburg having an 8% advantage over us. We will not make many sales on a tender if low bid wins. But you are saying to the other guy's bid he has to add his 8%, but not to the Montreal bid.

Mr. Wood: Yes. In effect you would both be on the same footing.

Mr. Layton: I see.

Mr. Friedman: It is not unlike manufacturing for your own use in the federal sales tax right now. If you went out and bought a box, you would have to pay federal sales tax. But if you built it internally, Revenue Canada would require you to compute the notional tax you would have paid, and that is remitted on an honour system.

I looked through the document, and I guess perhaps there is a hope that the acquisition of services by real consumers, the man or woman on the street, from outside of Canada would not be a major amount. Or maybe there is a hope that it would not be a major amount and the leakage would not be great.

Mr. Layton: Legal advice on something, a Canadian interest or Canadian individual.

Mr. Friedman: For example, what you are suggesting is that if I—

The Chairman: Decide to build your own house, Andy.

[Translation]

M. Layton: L'architecte qui travaille pour un hôpital. . .

M. Wood: Voilà exactement le genre de situation où il peut y avoir une préférence envers. . .

M. Layton: Bah!

M. Wood: Il pourrait aussi s'agir d'une université, d'un gouvernement ou d'une Église. Tous pourraient être incités à accorder la préférence aux services étrangers.

M. Layton: Le terme «préférence» laisse entendre, autrement dit, qu'il y a là une lacune à combler.

M. Wood: En effet, et il y a une proposition en vue de la combler, en ce sens que l'hôpital, l'université ou le gouvernement, s'ils s'adressent à un professionnel étranger, seraient tenus de payer la taxe sur ce service. Même si le professionnel en question n'est pas tenu de la payer. . . Mettons qu'il envoie une facture de 100,000\$ à l'organisation exonérée, cette dernière devra alors fournir au gouvernement. . .

M. Layton: Et l'acheteur.

M. Wood: L'acheteur devra remettre la taxe de 8 p. 100.

M. Layton: Je vois tout de suite le cas d'un appel d'offres. J'ai déjà travaillé dans les secteurs de la construction et du génie architectural. Dans le cas d'un appel d'offres, ceux qui sont établis de l'autre côté de la frontière, à Plattsburg, auraient une avance de 8 p. 100 sur nous. Si les marchés sont adjugés au plus bas soumissionnaire, on ne pourra jamais en obtenir un. Selon vous, toutefois, l'autre type devrait ajouter 8 p. 100 à son offre, mais pas pour un marché à Montréal.

M. Wood: Exact. Vous seriez donc tous deux sur le même pied.

M. Layton: Je vois.

M. Friedman: C'est un peu la même situation, selon le régime actuel de la taxe de vente fédérale, si ce que vous fabriquez est destiné à vos propres besoins. Si vous sortez pour acheter une boîte, vous payez la taxe. Mais si vous la construisez dans votre usine, Revenue Canada vous oblige à calculer la taxe que vous auriez dû verser en principe, puis ce montant vous est remis, selon un régime fondé sur l'honneur.

À la suite de la lecture du document, j'ose espérer que l'acquisition des services étrangers par les véritables consommateurs, le Canadien moyen ou la Canadienne moyenne, ne va pas causer de problèmes importants. On espère peut-être que ce ne sera pas pour des montants importants et que les fuites seront peu nombreuses.

M. Layton: Une entreprise ou un particulier établi au Canada, qui recherche une opinion juridique, mettons.

M. Friedman: À titre d'exemple, ce que vous proposez, c'est que, si je. . .

Le président: Si vous décidez de construire votre propre maison, Andy.

[Texte]

Mr. Friedman: I will take a live example. I am getting a divorce. So instead of going to a lawyer in Toronto, I go to a lawyer in Buffalo to save the 10% or 8%. Well, I am not sure whether a lawyer can practise law or whether there are some problems with it. But we could—

Mr. Layton: To practise law is not quite the same as getting advice.

Mr. Friedman: We could have a public accounting firm have an audit performed by the North Tonawanda office. But how many individuals would get into that? I guess you are looking at tax preparations—

Mr. Layton: The Reichmans. It depends on the individuals you mean. Only about three families. . .

Mr. Friedman: The other is a good question.

Mr. Wood: Yes, and it is one the Europeans have the same difficulty with.

The other side of the coin, of course, is when is a service exported? Again, in some cases it is very clear: the architect here doing work for the Washington—

The Chairman: Does that not create a real problem for trying to collect the tax back, or people making claims to collect tax back?

Mr. Wood: In what way?

The Chairman: Well, again you have an architect's firm designing buildings in Dallas—

Mr. Weyman: Designing the Paris opera house.

Mr. Wood: But he is based here. So there is no problem, because all his business inputs he buys on credit. Then, when he sends his bill off to Paris, there is no tax.

The Chairman: He does not have to charge any tax on it.

Mr. Wood: He does not charge any tax on it. So that is fairly clear. But where it is less clear is say he did most of the drawing here rather than in Paris; he only visited Paris once. Or he sat here and had photos of the site—

The Chairman: Well, the fact is that if he is going to try to have some business inputs, he has to do all the work in Canada. But the service is provided or sold to someone outside of Canada. So he does all the work in Canada.

• 2125

Mr. Wood: Yes. There is no question that should be an export.

Perhaps it is less clear if say a New York client comes here and is considering setting up business in Canada. They pop into Ottawa for a day to talk to me; they go back to the New York office; we have 15 lengthy

[Traduction]

M. Friedman: Je vais citer un exemple tiré de la vie quotidienne. Je veux divorcer. Au lieu de m'adresser à un avocat de Toronto, je prends un avocat de Buffalo, afin d'épargner 10 ou 8 p. 100. Bien sûr, j'ignore si cet avocat peut exercer sa profession ou si cela peut entraîner certains problèmes. Mais on pourrait. . .

M. Layton: Exercer la profession d'avocat n'est pas la même chose que de fournir une opinion juridique.

M. Friedman: Il pourrait s'agir d'un bureau de comptables dont la vérification serait faite par le bureau de Tonawanda Nord. Mais combien de personnes vont penser à faire cela? S'il s'agit toutefois de préparer sa déclaration. . .

M. Layton: Les Reichmans. C'est cela que vous avez en tête, seulement trois familles. . .

M. Friedman: Votre autre question est valable.

M. Wood: Oui, et c'est ce qui a suscité des problèmes pour les Européens, entre autres choses.

Le revers de la médaille, bien entendu, c'est de déterminer à quel moment le service est exporté? Encore une fois, dans certains cas, c'est très clair: un architecte canadien travaille pour Washington. . .

Le président: Cela ne va-t-il pas créer de véritables problèmes lorsqu'on voudra percevoir la taxe ou acheminer les demandes concernant son remboursement?

M. Wood: Que voulez-vous dire?

Le président: Si vous avez un bureau d'architectes qui dessinent des bâtiments à Dallas. . .

M. Weyman: Qui dessinent l'opéra de Paris.

M. Wood: Si ce bureau est au Canada, cela ne pose aucun problème, car tous les intrants commerciaux sont achetés à crédit. Alors, quand ce bureau envoie sa facture à Paris, il n'y a pas de taxe.

Le président: Il n'est pas tenu d'y ajouter la taxe.

M. Wood: Non. Cela, c'est plutôt clair. Là où c'est moins clair, c'est au moment où la plupart des dessins sont faits au Canada plutôt qu'à Paris, mettons que l'architecte ne s'est rendu qu'une fois à Paris. Ou bien il est resté à son bureau et s'est fait envoyer des photos de l'emplacement. . .

Le président: Eh bien, s'il veut avoir des intrants commerciaux, il doit s'arranger pour faire tout son travail au Canada. Mais le service est fourni ou vendu à quelqu'un à l'extérieur du Canada, de sorte que tout le travail est effectué au Canada même.

M. Wood: En effet. Cela ne fait pas de doute: cela devrait être considéré comme une exportation.

La situation est moins claire si un client vient ici de New York parce qu'il envisage d'ouvrir un commerce au Canada. Supposons que ce client vienne me voir à Ottawa pour discuter avec moi pendant une journée, puis

[Text]

telephone conferences; they decide not to establish business here in Canada or decide to think about it; and I send them a bill. Is that an export of a service or not?

All I am saying is that sometimes it is very clear; at other times it may not be. What if that client, instead of being in his New York office, came here and stayed for a week and we sat down and did that same exercise and I sent the bill to New York. Was that an export of the service or not?

Mr. Friedman: Before we leave that, I do not know if Peter mentioned it, but a number of people have approached me and said that if we had free trade then that would mean there would be no MSST paid at the border. That is not the case.

Mr. Layton: There is a difference between a tariff and a sales tax.

Mr. Friedman: Yes. The MSST would continue to be paid at the border.

Page 1-7 is critical to understand. These are the options available to reduce the tax burden. It is important to understand the difference between exempt and tax free. Notwithstanding that the press, government, tax practitioners, and taxpayers all confuse the two or think they are synonymous, the two terms are quite different. It is very important that the difference between the two be seen, because they come up with quite different results.

If you exempt an organization, then there are no taxes on its sales. However, it gets no credit for its purchases, and therefore only the exempt party's value-added is tax-free. This may lead to increased prices since the tax on his inputs must be recovered somehow. It may also be awkward to determine the tax credit where there is a mix of taxable and exempt sales. You are going to need some kind of allocation.

I am jumping ahead of ourselves a bit, but let us take, for example, mixed-use property with exempt residential rents and taxable commercial rents. This would require an allocation of inputs, some of which are available for tax credits and others which are not: things like snow-shovelling, audit fees, advertising, utilities, office furniture, etc. So the question arises, do you allocate by revenue; do you allocate by saying that the desk was used mainly to administer residential rents and therefore we cannot recover tax on it? Those are questions that have to be decided. But, very clearly, exemption means no tax on sales, but you do not get to recover the tax on your purchases.

[Translation]

retourne ensuite à son bureau de New York, après quoi j'ai avec lui quinze longues conférences téléphoniques. Supposons enfin que ce client décide de ne pas ouvrir de commerce au Canada, ou décide de reporter sa décision. Je lui envoie donc mes honoraires. Cela doit-il être considéré comme l'exportation de mes services ou non?

J'essaie tout simplement de vous faire comprendre que parfois la situation est très claire, et que parfois, elle ne l'est pas. Que fait-on si ce client, au lieu de retourner à son bureau de New York vient ici pour discuter avec moi pendant toute une semaine, et que à son retour à New York, je lui envoie ma facture d'honoraires. Dans ce cas-ci, doit-on considérer que j'ai exporté mes services ou non?

M. Friedman: Avant de passer à un autre sujet, je ne sais si M. Wood vous a signalé qu'un certain nombre de gens m'ont demandé si, advenant l'accord de libre-échange, cela signifierait qu'aucune TVMS ne serait payée à la frontière. Ce n'est évidemment pas le cas.

M. Layton: Il existe une différence entre ce que l'on considère comme un tarif douanier et la taxe de vente.

M. Friedman: En effet. On continuerait à payer la TVMS à la frontière.

La page 1-7 est essentielle si l'on veut bien comprendre ce dont on parle. Il s'agit des options permettant de réduire le fardeau fiscal. Il est important de bien comprendre la différence qui existe entre l'exonération de taxe et la détaxe pure et simple. Malgré ce que peut en dire la presse, le gouvernement, les experts fiscaux et les contribuables, qui confondent généralement les deux, et pensent qu'il s'agit de synonymes, les deux expressions sont tout à fait différentes. Il est très important d'en comprendre la différence, car les résultats ne sont absolument pas les mêmes.

Si vous exemptez de taxe un organisme, cela signifie qu'il ne paie aucune taxe sur ses ventes. Cependant, il ne reçoit pas non plus de crédit d'impôt pour ses achats, et, par conséquent, il n'y a que la valeur ajoutée exonérée qui soit détaxée. Cela peut donc entraîner une augmentation des prix, étant donné que la taxe sur les intrants doit être recouvrée de quelque façon. Il peut être également difficile de déterminer le crédit d'impôt, lorsqu'il y a à la fois vente taxable et vente exempte de taxe. Il faut donc prévoir un genre de ventilation.

Je saute quelques pages, mais laissez-moi vous donner l'exemple d'une propriété à plusieurs usages, qui inclut des loyers résidentiels exonérés d'impôt et des loyers commerciaux taxables. Cela suppose une ventilation des intrants, dont certains peuvent faire l'objet de crédit d'impôt, et d'autres, pas: je pense en particulier au déblaiement de la neige, aux frais de vérification, aux frais de publicité, aux services publics, à l'ameublement de bureaux, etc. On peut donc se demander si l'on fait la ventilation par revenu. Doit-on décider que tel ou tel bureau a été utilisé principalement pour administrer les loyers résidentiels et ne peut donc faire l'objet d'un recouvrement de taxe? Voilà le genre de question que l'on

[Texte]

The Chairman: That is when you say "exempt". If you say "zero-rated", though, then that is not the case.

Mr. Friedman: That is right. "Exempt" has a specific meaning and unfortunately—

The Chairman: So why do we not talk about the exact differences between zero-rating and exempting?

Mr. Friedman: Okay. That is item two. Zero-rating is used more in Europe than it is here. The sales tax reform document will refer to "tax-free". In tax-free or zero-rated, there is no tax on sales and full credit for all tax on tax inputs; therefore the good is truly tax free. There may be base erosion. The more goods that are tax free, the narrower the tax base, and therefore the higher the rate given that you want a fixed return. This may—

The Chairman: Suppose I buy tax-free goods. Are they not an expense if I turn around and resell them or reprocess them or something of that nature? Suppose, for example, I buy corn from a farmer and manufacture it into liquor. Now, that is an input into my distilling operation. How do I operate then?

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Mr. Friedman: It is not going to matter. Let us assume that in your distilling operation you are going to be taxable and, therefore, you are going to collect tax on the full amount of your sales.

The Chairman: I know that, but can I deduct the cost of my purchases?

Mr. Friedman: No, you cannot, because you never paid tax on those purchases. That is the whole point, and that is why we went through the example. If you buy tax-free, there is nothing to recover. If you buy tax-paid, then you can recover the tax and get back to the same place as you would be had you bought tax-free.

The Chairman: I am thinking of doing it by the subtraction method, but the same result works out.

Mr. Friedman: Yes. Without trying to short-cut it, I think it is important to see how it all—

The Chairman: Do you not agree that, in practice, most operators will use the subtraction method for

[Traduction]

peut se poser. Mais ce qui est clair, c'est que si une exonération signifie que l'on n'a pas à payer de taxe de vente, cela signifie aussi que l'on ne peut recouvrer de taxe sur les achats.

Le président: Ça, c'est lorsque vous parlez d'"exonération". Si vous parlez au contraire d'un taux de base zéro, ce n'est cependant pas le cas.

M. Friedman: C'est exact. L'exonération a un sens bien précis, et malheureusement. . .

Le président: Pourquoi ne pas parler dans ce cas des différences exactes entre le taux de base zéro et l'exonération?

M. Friedman: Bien. Cela devait justement faire l'objet de ma deuxième remarque. Le taux de base zéro est beaucoup plus utilisé en Europe qu'ici. Or, le document de la Réforme fiscale parle de détaxe. Dans le cas d'une détaxe ou d'un taux de taxe zéro, on ne perçoit aucune taxe sur les ventes, et on peut recouvrer un plein crédit sur toutes les taxes imposées sur les intrants; par conséquent, le bien est véritablement détaxé. Mais cela peut entraîner l'érosion de l'assiette fiscale. Plus il y a de biens détaxés, plus étroite est l'assiette fiscale et, par conséquent, plus élevé est le taux d'imposition, étant donné que l'on cherche à obtenir des revenus fixes. Cela peut. . .

Le président: Supposons que j'achète des biens détaxés. Ne sont-ils pas considérés comme une dépense, si je décide immédiatement après de les revendre ou de les transformer ou quelque chose de ce genre? Supposons, par exemple, que j'achète du maïs à un agriculteur et que je le transforme en alcool. Étant donné que cela devient un intrant dans mon exploitation de distillerie, que dois-je faire?

M. Friedman: Cela n'a pas d'importance. On peut supposer que votre exploitation de distillerie sera taxable et que, par conséquent, vous allez percevoir des taxes sur la totalité de vos ventes.

Le président: Je le sais bien, mais puis-je déduire le coût de mes achats?

M. Friedman: Non, puisque vous n'avez jamais payé de taxe à l'achat. C'est cela qu'il faut comprendre, et voilà pourquoi nous vous avons donné des exemples. Si vous achetez un bien détaxé, vous n'avez rien à recouvrer. Mais si vous payez de la taxe à l'achat, vous pouvez alors recouvrer le montant de la taxe, ce qui vous place dans la même position que si vous aviez acheté un bien détaxé.

Le président: Cela donne le même résultat si on procède par soustraction.

M. Friedman: En effet. Sans vouloir vous couper la parole, il me semble important que vous compreniez comment. . .

Le président: Mais ne croyez-vous pas qu'en pratique, la plupart des exploitants préféreront soustraire pour

[Text]

calculating their tax base and calculate their tax on their margin?

Mr. Weyman: If you go back to the example, Mr. Chairman, if the corn were indeed taxable, then the liquor business you have described could simply compute its tax through the subtraction method by taking a credit for the tax on the corn it had purchased. That is exactly the same as if the corn were tax-free when sold by the farmer, and the liquor business gets no credit in respect of its purchase of corn.

The tax effect is identical, but the work is more burdensome to the liquor business because they have to distinguish the corn purchases to not deduct any credit in respect of them, because there is no tax if the corn is tax-free. But the result at the end of the day would be the same either way. So actually, in your subtraction method, it is easier for the liquor business and all other businesses if all its inputs are taxable, because they get full credit.

The Chairman: Why do they not get full credit? Why do you not give them credit for their zero-rated inputs?

Mr. Weyman: It would be astronomically expensive because you are giving a credit for non-existent tax. That is a beautiful system.

The Chairman: Not if you do it in the subtraction.

Mr. Weyman: Absolutely. I do not know what you mean by subtraction, Mr. Chairman.

Mr. Friedman: I think I know what Mr. Chairman means. He is saying that what he would like to do is take the sales of a corporation, take off the purchases and pay tax on the difference.

The Chairman: That is right. Why can you not do that?

Mr. Friedman: You cannot do that because you either keep track of the tax or you keep track of the taxed purchases. There is no other way—

The Chairman: Why can you not keep track of the margins?

Mr. Friedman: Because it does not work in real life. It works in textbooks, but as far as even the proposals go, there is either a memo account for the taxed purchases or a memo account for the taxes paid. So you have your choice. You are either going to keep track—

The Chairman: Why can we not design a system that works on the subtraction method? That is the way the BTT was first suggested when it was sold to Bulloch. In other words, I want to tell you that the political problem is that it had better work this way because it will not wash with the small business community if it does not. That is where our problem is.

[Translation]

calculer leur assiette fiscale, puis calculer la taxe sur leur marge?

M. Weyman: Revenons à votre exemple, monsieur le président: si le maïs était en effet taxé, comme exploitant de votre distillerie, vous pourriez tout simplement calculer la taxe par soustraction en allant chercher un crédit sur la taxe perçue sur le maïs acheté. C'est exactement comme si le maïs était détaxé au moment où il est vendu par l'agriculteur, et comme si la distillerie ne recevait aucun crédit à l'achat du maïs.

La taxe a exactement les mêmes effets, mais les calculs sont plus complexes pour l'exploitant de la distillerie, puisqu'il lui faut mettre à part l'achat du maïs sur lequel il ne peut réclamer aucun crédit, puisque, lorsqu'il l'a acheté, le maïs était détaxé. En fin de journée, le résultat en est le même. Par conséquent, on soustrayant, comme vous l'avez suggéré, c'est beaucoup plus simple pour toutes les distilleries et les autres petites entreprises puisqu'elles peuvent obtenir le plein crédit de leurs intrants, si ceux-ci sont taxables.

Le président: Pourquoi ne peuvent-elles pas obtenir dès le départ le plein crédit pour tous leurs intrants détaxés?

M. Weyman: Cela coûterait beaucoup trop cher au gouvernement, puisque cela reviendrait à donner un crédit pour l'achat de biens sur lesquels aucune taxe n'était perçue. C'est la beauté du système.

Le président: Pas si vous soustrayez, comme dans ma méthode.

M. Weyman: Absolument. Mais qu'entendez-vous exactement par soustraction, monsieur le président?

M. Friedman: Je pense que j'ai compris. Le président suggère de prendre d'abord les ventes d'une société, d'en soustraire les achats et de payer une taxe sur la différence.

Le président: C'est exact. Pourquoi ne peut-on pas faire cela?

M. Friedman: Parce que on doit noter soit la taxe, soit les achats taxés. Il n'y a aucune autre façon. . .

Le président: Pourquoi ne peut-on noter les marges?

M. Friedman: Parce que ce n'est pas ainsi que ce système fonctionne dans la vraie vie. C'est parfait en théorie, dans les livres, mais en pratique, on prend note soit des achats taxés soit des taxes payées. C'est à vous de choisir. Vous allez noter soit. . .

Le président: Pourquoi ne peut-on concevoir un système qui fonctionne par soustraction? N'est-ce pas la méthode que l'on a suggérée pour la taxe sur les transactions, lorsqu'elle a été proposée à Bulloch? Autrement dit, c'est un problème politique: il vaudrait mieux que cela réussisse, sans quoi cette méthode ne prendra jamais chez les petites entreprises. Voilà le véritable problème.

[Texte]

Mr. Weyman: Mr. Chairman, I think one answer to your question is this. If every good were taxable without exception, then I think in practice your proposal could work without significant—

The Chairman: If you had almost all your goods—

Mr. Weyman: I mean all of them. If there were no tax-free items then your system would work, because you would get a deduction for every input the business had sustained, had paid money for, that it cost them, and you would pay tax just on the difference. Then the system would work. But the moment you have corn that is tax-free, if you allow a deduction for corn for the liquor business you have one big hole in your tax system, and the rate would be not 10%, but 12% or more.

The Chairman: I do not know. The corn example is a perfect one, you realize. I am thinking of a favourite starch company in my riding, which makes liquor as well as laundry starch, corn syrup and starch for explosives. It all comes out of corn.

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Mr. Friedman: All we can work is what is in the papers, on page 1-46, which basically is the GST. The subtractive method says "input tax creditable amount". So they look at a cash disbursements journal for a small business—

The Chairman: That is right.

Mr. Friedman: —and they have to keep track of the taxed amounts.

Mr. Weyman: And it is only simple, therefore, if every single purchase is indeed a taxed purchase; then it is all of them. You just take your total purchases for the month and deduct them from total sales. But if some of those purchases are not taxed, because they were tax-free at the earlier stage, then the system falls apart.

The Chairman: It is very simple. You take your total sales plus your taxable purchases and subtract and multiply the difference. The corn would not be an expense; that is all.

Mr. Friedman: We are covering part of tomorrow's topic, but it is six of one and half a dozen of the other. You are going to have to keep track of either the taxed purchases or the tax itself.

Mr. Layton: Yes, that is right.

Mr. Friedman: To give you food for thought, if 5 or 10 years from now you choose to go to two rates or three rates then, by keeping track of the tax on your purchases,

[Traduction]

M. Weyman: Monsieur le président, j'ai une réponse à vous proposer. Si vous taxiez sans exception tous les biens, votre proposition pourrait réussir en pratique sans grande...

Le président: Si presque tous les biens...

M. Weyman: Je parle de les taxer tous. S'il n'y avait pas de détaxe et que tous les biens étaient taxés, votre système réussirait, parce que vous pourriez réclamer une déduction pour chaque intrant assumé par une entreprise, c'est-à-dire que vous pourriez réclamer une déduction pour tout ce qu'elle a dû payer en coûts, et vous n'auriez plus à verser de taxe que sur la différence. Alors, cela marcherait. Mais à partir du moment où votre maïs est détaxé, si vous permettez une déduction pour le maïs que vous transformez dans votre distillerie, vous avez un énorme trou dans votre assiette fiscale, et votre taux d'imposition passe alors non pas à 10 p. 100, mais à 12 p. 100 ou plus.

Le président: Je n'en sais rien. Vous voyez que mon exemple du maïs est parfait. J'ai dans ma circonscription, une entreprise d'amidon que j'aime bien, qui fabrique de l'alcool, de l'amidon de blanchissage, du sirop de maïs et de l'amidon pour explosifs. Tous ces produits sont fabriqués à partir du maïs.

M. Friedman: Il faut qu'on se fonde sur ce qu'on retrouve dans le document à la page 1-46, c'est-à-dire la TBS, à toutes fins pratiques. Avec la méthode soustractive, on parle du «montant créditable au titre de la taxe sur intrant». Il s'agit du livre des déboursés en espèce pour une petite entreprise...

Le président: C'est exact.

M. Friedman: ... qui doit tenir compte des montants taxés.

M. Weyman: Et cette méthode n'est donc simple que si chaque achat est effectivement un achat taxé; à ce moment-là, on les compte tous. A ce moment-là, on n'a qu'à déduire le total des achats pour le mois du total des ventes. Mais si tous les achats ne sont pas taxés, du fait d'avoir été détaxés à une étape ultérieure, à ce moment-là le système ne fonctionne plus.

Le président: C'est très simple, en fait. On prend le total des ventes plus les achats taxables, on fait la soustraction et on multiplie la différence. Le maïs ne serait donc pas considéré comme une dépense; c'est tout.

M. Friedman: Nous commençons déjà à parler du sujet que nous sommes censés couvrir demain matin, mais en fait, cela revient au même. C'est-à-dire qu'il faut tenir compte soit des achats taxés, soit de la taxe proprement dite.

M. Layton: Oui, c'est exact.

M. Friedman: Juste pour vous donner un peu à réfléchir, si vous décidiez dans cinq ou dix ans d'avoir deux ou trois taux, eh bien on peut facilement calculer la

[Text]

that is easily achieved, whereas if you keep track of tax purchases then you have to keep two or three or four different brackets of tax purchases.

Mr. Layton: Right.

Mr. Friedman: Refundable income tax credits is the third alternative. In refundable income tax credits you tax all sales and then you provide refundable income tax credits, and such credits replace the benefits of tax-free goods. It is a targeted tax relief. So if you jump up the tax-free where everybody gets tax relief on basic groceries, under a refundable income tax credit only certain individuals within certain parameters would get that tax relief.

The fourth alternative is a combination of two or all of the above, and in fact that really is what we could end up with in Canada, with some businesses exempt, certain goods tax free, with still some refundable income tax credits to adjust for any perceived inequities.

Mr. Layton: So much for simplicity and reduced government.

Mr. Friedman: Page 1-78 continues the example we started with, and perhaps, Mr. Chairman, some of your questions will be answered, or perhaps it will raise some more questions.

We look at an example of the wholesaler in our page 1 situation, and we compare how he stood under the pre-MSST days with how he would do under a taxable situation and with how he would do in an exempt situation. Remember that only the wholesaler is exempt. As we pointed out before, he had a gross margin of \$50 before MSST. He still has \$50 if he was taxed. But if he was exempt, if you look at the sales figure, he collects \$150 from the retailer. He cannot recover the \$8 on his inputs, and he is out \$8. His gross margin is now only \$42. He gets no credit for the purchases.

The Chairman: Why would he not charge \$158 and get it back from the purchaser?

Mr. Friedman: The wholesaler raises his price, to recover the tax, to \$158; his purchases are \$108; it gives him \$50, and everybody is happy. Correct?

The Chairman: No.

Mr. Friedman: Not so, because the retailer will not get credit for that \$8 and the retailer's cost has gone up by \$8. So the retailer would be happier if his supplier was taxable. He is not so happy now that his supplier is exempt.

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Mr. Weyman: Then you look for a taxable supplier.

[Translation]

taxe sur les achats, alors que si l'on veut calculer les achats taxés, il faut les séparer constamment en deux, trois ou quatre catégories différentes d'achats taxés.

M. Layton: C'est vrai.

M. Friedman: La troisième possibilité serait le crédit d'impôt remboursable. Là on taxe toutes les ventes tout en offrant des crédits d'impôt remboursables, et ces crédits remplacent les avantages qui accompagnent les biens détaxés. C'est-à-dire que seuls certains groupes ont droit à ce dégrèvement. Donc, à la différence d'un régime de détaxe où tout le monde aurait droit à un dégrèvement pour les aliments de base, avec le crédit d'impôt remboursable, seules certaines personnes remplissant certaines conditions ont droit à ce dégrèvement.

La quatrième possibilité est de combiner ces deux-là ou alors toutes les options, et il est d'ailleurs fort possible que nous adoptions cette solution-là au Canada; autrement dit, certaines entreprises seraient exclues, certains biens seraient détaxés et il serait tout de même possible d'offrir des crédits d'impôt remboursables pour éliminer ce qu'on pourrait considérer comme les aspects injustes du régime.

M. Layton: On ne pourrait donc plus parler de simplicité et d'interventions gouvernementales limitées.

M. Friedman: A la page 1-78, nous avons le même exemple qu'au début, et cette explication permettra peut-être de répondre à certaines de vos questions, monsieur le président, ou alors, elle en soulèvera d'autres.

Regardons donc l'exemple du grossiste à la page 1; nous avons donc une comparaison de sa situation dans trois scénarios différents, à savoir avant la mise en application d'une TVMS, avec la taxe ou avec exonération. Rappelez-vous que seul le grossiste est exonéré. Comme nous vous l'avons dit tout à l'heure, il avait une marge brute de 50\$ avant la TVMS. Il a encore ces 50\$ s'il est taxé. Mais s'il est exonéré, vous allez voir en regardant les chiffres de vente qu'il reçoit 150\$ du détaillant. Il ne peut pas récupérer les 8\$ pour ses intrants, et il lui manque donc 8\$. Sa marge brute n'est plus que de 42\$. Il n'obtient aucun crédit pour les achats.

Le président: Pourquoi ne ferait-il pas payer 158\$ à l'acheteur pour récupérer son argent?

M. Friedman: Bon. Mettons que le grossiste augmente son prix à 158\$ pour récupérer la taxe; ses achats sont de 108\$; à ce moment-là, il obtient ses 50\$, et tout le monde est content, n'est-ce pas?

Le président: Non.

M. Friedman: Non, parce que le détaillant n'aura pas de crédit pour ses 8\$, alors que ses coûts ont augmenté de 8\$. Le détaillant serait donc plus content si son fournisseur était taxable. Il est beaucoup moins content si son fournisseur est exonéré.

M. Weyman: Il faut donc chercher un fournisseur taxable.

[Texte]

Mr. Friedman: If there is one.

Mr. Weyman: Exactly! That is a good point.

Mr. Friedman: Page 1-7b illustrates what happens to three options at the retail level. The retailer is either taxable, he either sells tax-free goods, or he is exempt.

In the first column you can see that from the first example he makes \$200, he is tax-free. . . Sorry, tax-free is the second column, that is \$200. If he were taxable his sales would be \$378, his purchases \$150 with \$12 tax. He has a net tax remittance from the first illustration of 16\$, he is still kept whole at \$200.

If the retailer were exempt, he would charge his customers \$350, his purchases go up to \$162, but he does not get a \$12 refund in that case. So his margin has dropped from \$200 to \$188.

The Chairman: Because he would be able to. . . If the first guy can sell for \$378 surely to goodness he can sell for \$362. And remember, he is a retailer.

Mr. Weyman: If you are comparing an exempt retailer with a taxable retailer for the same goods—

Mr. Friedman: Yes.

Mr. Weyman: —and the taxable one is selling to the consumer for \$378, the chairman is saying that the exempt one could certainly sell for \$362 and wind up with the same net margin of \$200. He would raise his prices by \$12.

The Chairman: As a matter of fact, as a practical matter if you ever had that kind of situation he would probably sell for \$377.

Mr. Friedman: That is I think exactly where you would choose to exempt certain organizations. Where they are in competition with taxable organizations they will be subject to tax.

The Chairman: Sure. But in fact is that not one of the key problems in this whole thing when you get into charities and so on and municipal supply and that kind of thing? Because we are talking of the retail level there is no passing it on. The sale is directly to the real consumer. If somebody is exempt at that point, or does not have to charge at that point, then he has a real advantage over someone who has to charge.

Mr. Weyman: There is another aspect, Mr. Chairman. Think of it from the consumer's point of view. I think you are not doing the consumers any favour by introducing an exempt retailer, because the consumer is going to pay as much or maybe \$1 less buying from the

[Traduction]

M. Friedman: S'il en existe.

M. Weyman: Oui, c'est très juste!

M. Friedman: La page 1-7b donne une illustration du fonctionnement des trois options au niveau du détail. Le détaillant peut être taxable, il peut vendre des biens détaxés, ou alors il peut être exonéré.

Dans la première colonne, vous voyez dans ce premier exemple, qu'il fait 200\$, les biens qu'il vend étant détaxés. . . Non, excusez-moi, c'est la deuxième colonne qui concerne le détaillant vendant des biens détaxés—là c'est de 200\$. Si les détaillants étaient taxables, ses ventes seraient 378\$, ses achats de 150\$, avec une taxe de 12\$. Donc, dans ce premier exemple, il payerait une taxe nette de 16\$, mais sa marge reste inchangée à 200\$.

Dans le cas d'un détaillant exonéré, il ferait payer 350\$ à ses clients, ses achats passeraient à 162\$, mais dans ce cas-ci, il n'obtiendrait pas un remboursement de 12\$. Sa marge serait donc moins grande, puisqu'elle passerait de 200\$ à 188\$.

Le président: Parce qu'il pourrait. . . Mais si le premier peut vendre pour 378\$, je ne vois vraiment pas pourquoi l'autre ne pourrait pas vendre à 362\$. Et rappelez-vous qu'il s'agit d'un détaillant.

M. Weyman: Si vous comparez un détaillant exonéré avec un détaillant taxable lorsque les deux vendent les mêmes articles. . .

M. Friedman: Oui.

M. Weyman: . . . et dans votre exemple, le détaillant taxable fait payer 378\$ au consommateur, eh bien le président est en train de vous dire que le détaillant exonéré pourrait certainement faire payer 362\$ à ses clients, ce qui lui donnerait la même marge nette de 200\$. Il augmenterait ses prix de 12\$.

Le président: En fait, dans la pratique, ce même détaillant ferait sans doute payer 377\$ à ses clients.

M. Friedman: C'est justement pourquoi il faudrait exclure certaines entreprises; c'est-à-dire que les entreprises faisant concurrence aux entreprises taxables seraient assujetties à la taxe.

Le président: Oui, bien sûr. Mais n'est-ce pas en fait l'un des principaux problèmes que pose ce régime, surtout en ce qui concerne les oeuvres de charité, les fournisseurs municipaux, etc.? Puisqu'au niveau du détail, il n'y a personne d'autre à qui transmettre le coût. On vend directement au vrai consommateur. Si le détaillant est exonéré ou n'est pas obligé de faire payer la taxe, il a vraiment un avantage par rapport à ceux qui doivent faire payer la taxe à leur client.

M. Weyman: Mais il y a un autre aspect également, monsieur le président. Mettez-vous à la place du consommateur. Vous ne rendez pas service au consommateur en créant un détaillant exonéré, puisque le consommateur payera autant ou peut-être seulement un

[Text]

exempt retailer than he would buying the same goods from a taxable retailer.

Mr. Layton: Sure.

The Chairman: Sure. And guess what, he is going to buy from the exempt retailer every day.

Mr. Friedman: Hopefully there is also a safeguard in that if there is taxable and exempt retailers in competition the taxable retailer will be on the phone to you to indicate that he is competing against somebody who is not paying the tax.

Mr. Layton: "Bloody government", he would say.

Mr. Friedman: Page 1-8 highlights some of the expected problems with the different methods of tax relief. If you look at exemptions for organizations with both taxable and exempt activities, you require very clear guidelines as to the separation, and we have just finished talking about this. If they are involved in both types of activities it is very important that the guideline be clear.

For the taxpayer it requires allocation of purchases to see which are creditable, or which taxes on the purchases are creditable, as well as a separation of revenues to see what is taxable. And the tax administration must issue guidelines, interpretations, police exemptions and allocations as well.

So those are some of the problems with providing relief with an exemption. If you provide relief tax-free, we have talked about base erosion. Every time you take an item away from the tax base it means that much more tax to recover from the other items that remain in the tax base, so that leads to higher tax rates to yield the same revenues.

You require administrative interpretation to set parameters for tax-free items. As can be seen from court cases in the past 10 to 20 years, if you provide an out for certain goods then it is only a matter of time that the boundaries are tested. The boundaries are tested in the courts, especially by parties who believe their products are treated unfairly as compared with those of competitors who sell similar products, substitute products, that are not taxed. So that is a key problem. As soon as you start inserting tax-free goods, you have boundary testing. So it requires judicial interpretation of boundaries.

• 2145

The compliance costs are not increased. I know that is in there. There are no increases in compliance costs from the purchase side of it, because all purchases are creditable. But if you are in a business that has both tax-free and taxable goods, you may require some manner in which to separate the goods.

[Translation]

dollar de moins en achetant ses articles au détaillant exonéré qu'il n'aurait payé s'il les avait achetés au détaillant taxable.

M. Layton: Oui.

Le président: C'est sûr. Et qui plus est, il va probablement préférer le détaillant exonéré.

M. Friedman: Et on peut espérer que si ce genre de situation se produit, si un détaillant taxable et un détaillant exonéré se font concurrence, le détaillant taxable ne perdra pas de temps à communiquer avec vous pour se plaindre du fait qu'il fait concurrence à quelqu'un qui ne paie pas la taxe.

M. Layton: Il va maudire le gouvernement.

M. Friedman: À la page 1-8, on expose certains des problèmes que pourraient poser les différentes méthodes proposées. Si l'on veut exclure les organismes ayant des activités à la fois taxables et exonérées, il faut des lignes directrices très claires quant à la séparation de ces activités—ce dont nous venons de parler, d'ailleurs. Si l'entreprise a ces deux types d'activités, il est très important que les directives soient claires.

Du point de vue du contribuable, il faut déterminer quels achats sont créditaables, quelles taxes sur les achats sont créditaables, et quels revenus sont taxables. De plus, les administrateurs doivent préparer des lignes directrices, donner des interprétations, prévoir des exclusions, etc.

Voilà donc certaines des difficultés que pourrait poser l'option prévoyant l'exonération. Dans le cas des taxes, cependant, il y a une certaine érosion de l'assiette fiscale, comme nous vous l'avons dit tout à l'heure. Chaque fois qu'on élimine une source de taxe, il faut récupérer ce manque à gagner ailleurs dans l'assiette, ce qui nécessite donc des taux plus élevés pour obtenir les mêmes recettes.

Il faut également une interprétation administrative permettant d'établir les paramètres s'appliquant aux articles détaxés. Il suffit de se rappeler les procès qui ont eu lieu depuis les dix ou vingt dernières années pour savoir que si certains articles jouissent d'un avantage quelconque, bientôt on essaiera d'obtenir ce même avantage pour d'autres articles. On conteste les limites devant les tribunaux, surtout ceux qui croient que leurs produits font l'objet d'un traitement injuste par rapport aux produits semblables ou de rechange, qui ne sont pas taxés, chez leurs concurrents. C'est un problème important. Dès qu'on accepte de ne pas taxer certains biens, on a le problème de définition de limites. Les tribunaux doivent statuer en la matière.

On n'augmente pas les coûts de conformité. Je sais que c'est prévu. L'acheteur ne paie pas plus cher pour se conformer à la loi, parce qu'il peut obtenir un crédit pour tous les achats. Mais si l'on vend des produits taxés et des produits exempts de taxe, il faut distinguer les deux.

[Texte]

Third, income tax credits. You gentlemen and lady are more familiar with income tax credits than I am. But some of the products' physical distribution, logistics. . . How do you distribute the tax credits? Who gets the qualification? Is it a sliding scale? How much do you get? Do you pre-pay in advance? Consumers are going to have to go out and pay the tax, and they may have to wait three months or six months to get the tax. And how often do you send money?

The papers, again, do not address the issues, but I am sure you are aware of the problems. This is not exhaustive by any means. It has been provided just to get you thinking of some of the things involved.

Mr. Layton: I would like to make use of this moment of showing the problems. There appear to be problems in each of the options, exemptions, tax-free, and income tax credits. Will we be addressing the recommendations and solutions? I turn to the next page and I see ST problems, and those just relate to the current system, not to any one of the proposed systems, which apparently, under page 1-8, carry a number of concerns, reservations, problems. Are we coming around in this review to looking at each of these and saying in the opinion of your colleagues this or that appears to have better application?

Mr. Friedman: No, I do not think at the end of the three days you are going to walk away with our view of it. I think we want to be as impartial as possible, to say here are the proposals, here is how they work. I believe you will have a number of submissions over the next whatever period that will illustrate some of the problems, some of the concerns. We could sit here for a long period of time and not touch on some of the concerns, valid or not, that different self-interest groups would have.

We appear without any self-interest, so to speak. It is just to analyse the proposals and to contrast them with New Zealand and European practices.

Mr. Weyman: I would just make one comment. I guess the answer lies in part in some value judgments. As with everything, there are always trade-offs. Some of them are technical. Some of them relate to the administration by government. Some relate to compliance by taxpayers, whether they are large or small, and particularly small taxpayers; the small business taxpayer. Some are political. You could talk about a perfect system in an idealistic way, and then you can put your own value judgments on as to how realistic that perfect system might be.

As we have said already, and as the witnesses have said already this evening, the moment you introduce, for example, an exemption system at some intermediate stage, you get a cascading of tax, and presumably the consumer ultimately suffers for that. Governments should be delighted, because they collect more revenue, relatively speaking. They get more. If you have a tax-free system, the more tax-free it is, the greater the erosion of the base and the higher the rate is going to be. If you have a tax-free system, you get these boundary problems as to what is a basic grocery and what is just food that is not a

[Traduction]

Troisièmement, les crédits d'impôt sur le revenu. Vous, messieurs et madame, connaissez les crédits d'impôt sur le revenu mieux que moi. Pour ce qui est de la distribution des produits, de la logistique. . . comment répartir les crédits d'impôt? Qui est admissible? Est-ce une échelle mobile? Combien reçoit-on? Faut-il payer à l'avance? Les consommateurs devront payer la taxe et attendre de trois à six mois pour se faire rembourser. A quel intervalle envoie-t-on le remboursement?

Là encore, les documents ne traitent pas de ces question, mais je suis sûr que vous connaissez les problèmes. Ce n'est pas exhaustif, loin de là. Il s'agit simplement de vous donner matière à réflexion.

M. Layton: Je voudrais profiter de cette occasion pour parler des problèmes. Chacune des options semble comporter des problèmes, qu'il s'agisse des exemptions de taxe ou des crédits d'impôt. Parlerons-nous des recommandations et des solutions? Je tourne la page et je vois les problèmes de la taxe de vente, et il ne s'agit que du régime actuel et non pas des systèmes proposés, qui, selon la page 1-8, soulève certaines préoccupations et questions. Lors de cette étude, devons-nous examiner chaque option et voir celle qui mérite l'approbation de vos collègues?

M. Friedman: Je ne vois pas qu'à la fin des trois jours vous voyiez les choses d'un autre point de vue. Nous voulons être les plus impartiaux possibles; nous voulons présenter les propositions et leur façon de fonctionner. Je crois que vous recevrez certains mémoires qui signaleront quelques problèmes et préoccupations. Nous pourrions passer beaucoup de temps sans aborder les préoccupations, fondées ou non, de différents groupes d'intérêt.

Nous ne sommes pas une partie intéressée, pour ainsi dire. Il s'agit d'analyser les propositions et de les comparer avec ce qui se fait en Nouvelle-Zélande et en Europe.

M. Weyman: Je ne voudrais faire qu'une observation. Il s'agit, en partie, de jugements de valeur. Il faut toujours faire la part des choses. Certaines questions sont techniques. Certaines concernent l'administration gouvernementale. Certaines touchent la mise en application par les contribuables, petits et grands, et notamment les petits entrepreneurs. Certaines sont politiques. On peut parler d'un régime parfait dans l'idéal, puis on peut tenir compte des exigences de la réalité.

Nous avons déjà dit, et les témoins l'ont déjà dit ce soir, que dès qu'on introduit des exemptions, par exemple, à un stade intermédiaire, on déclenche un effet «cascade» et c'est probablement le consommateur qui en souffre, en fin de compte. Les gouvernements devraient être ravis, parce qu'ils perçoivent plus, relativement parlant. Ils s'enrichissent. Plus on exempte de taxe, plus on érode l'assiette fiscale et plus le taux sera élevé. Si vous exemptez certains biens de taxe, il faut décider ce qu'est un produit de base et ce qui ne l'est pas et fixer les limites. Au fur et à mesure que les tribunaux statuent, les

[Text]

basic grocery, and where the boundary is. With the judicial interpretations over time, the boundary starts moving, and there is further erosion. There is increased compliance costs because you have to have appeals and go to court. The taxpayer has to fight cases.

• 2150

We have said that those systems are not necessarily targeted. In a tax-free system, higher income consumers are getting a benefit as well as lower income consumers. As has just been indicated, with a refundable income tax credit system, even though there may be some practical problems in administering that kind of system, at least it is targeted.

So each one of these proposals has its own aspects, if you like, in terms of advantages and disadvantages, and out of all of this we are trying to carve the perfect system.

Mr. Layton: We are trying to carve the best possible system. Eventually I hope the committee will recommend to the Minister of Finance which system we consider to be the best. Here all we seem to be saying is that there are problems with each of them.

The Chairman: That is right. There are problems.

Mr. Layton: It is hoped that we will receive inputs from future witnesses that will tell us which one is the best and then we can make a choice.

The Chairman: Yes. I think before we have any future witnesses we have to understand all of the pitfalls and problems of any system. When we receive briefs from people we want to understand what they are talking about. We do not want to get fleeced by their alleged—

Mr. Layton: Persuasiveness.

The Chairman:—application.

Mr. Layton: I am sorry to have interrupted. I have only one more page.

Mr. Friedman: That is very important, because I think what we are trying to give you is the tools so that you are not snowed, so that somebody does not walk in here and say this is the way it is, and you nod. That can happen. If you want the perfect system you tax everything and you provide credits for everything, and that only works in textbooks. It does not really work in real life.

Mr. Layton: We know from announcements made by the government that it is not going to be, so looking too hard at the perfect system does not seem to be accomplishing anything.

Mr. Friedman: Page 1-9 asks the magic question: have we solved all the questions posed by the current federal sales tax? This is where it all started, that—

Mr. Layton: Where it says “does MMST solve. . .”?

[Translation]

limites se déplacent et l'assiette s'érode davantage. Les coûts de mise en application augmentent à cause des appels et des frais judiciaires. Le contribuable doit se battre.

Nous avons dit que ces régimes ne sont pas nécessairement visés. Si on exempte certains produits de taxe, les consommateurs à revenus élevés en profitent aussi bien que ceux à faibles revenus. Comme on vient de le dire, un régime de crédit d'impôt remboursable, même s'il pose des problèmes pratiques au niveau de l'administration, a au moins l'avantage d'être visé.

Donc, chaque proposition comporte ses propres avantages et désavantages et nous essayons d'élaborer le système parfait à partir de tout cela.

M. Layton: Nous essayons d'élaborer le meilleur système possible. J'espère que le Comité finira pas recommander au ministre des Finances le régime que nous considérons comme le meilleur. À l'heure actuelle, il semble que nous ne voyons que des problèmes avec toutes les propositions.

Le président: C'est exact. Il y a des problèmes.

M. Layton: On espère que des témoins viendront nous renseigner et ainsi nous permettre de choisir le meilleur régime.

Le président: Je pense qu'avant de convoquer d'autres témoins, nous devons comprendre tous les inconvénients et problèmes d'une proposition donnée. Lorsque nous recevrons des mémoires, nous voudrions savoir de quoi on parle. Nous ne voulons pas nous faire duper par leur prétendue. . .

M. Layton: Force de persuasion.

Le président: Prétendue utilité.

M. Layton: Excusez-moi de vous avoir interrompu. Il ne me reste qu'une page.

M. Friedman: C'est très très important, parce que nous essayons de vous donner les outils, de vous défendre et de ne pas être dupes. Cela peut arriver. Si on veut le régime parfait, on taxe tout et on donne des crédits pour tout et cela ne marche qu'en théorie. Cela ne marche pas en réalité.

M. Layton: D'après les annonces du gouvernement nous savons qu'il n'en sera pas ainsi. Alors, il est inutile d'examiner de trop près le système parfait.

M. Friedman: A la page 1-9, on pose la question magique: La taxe de vente multistades élimine-t-elle les défauts de la taxe de vente fédérale actuelle? C'est là où tout a commencé. . .

M. Layton: Où l'on dit «la taxe de vente multistade élimine-t-elle. . .»?

[Texte]

Mr. Friedman: Exactly. Does MMST solve the current problems? That is why it is proposed, because of these problems. I am not sure how much detail you want. . . The problems are on the left-hand side. Shall we cover it?

Mr. Layton: Yes. I think we are all agreed.

Mr. Friedman: You are aware of the problems. It punishes domestic manufacturers and the MMST treats importers and domestic manufacturers alike, so that complaint can be set aside. It favours private labels. There is a suggestion that since the tax is on selling price to consumers, private labels would lose any tax advantage they currently have.

Arbitrary administration: The arbitrary administration will be corrected as long as tax-free and exempt transactions are clearly defined. Rules for allocation between creditable and non-creditable purchases may prove troublesome. But the clearer you can become, the less chance for arbitrary administration.

The random notional valuation, where you can pay tax on arbitrary tax bases, should disappear as well.

Cascading, it depends. VAT, GST—either the credit invoice method or the subtractive method solves the federal only cascading problem. If the provinces choose not to go along, you still continue to have some cascading in the system. However, if you have a national sales tax, that would be solved as well. We will talk about differences between VAT, GST and NST tomorrow.

• 2155

Favours on taxed goods: the tax-free goods, unfortunately, will continue to receive favourable treatment, and if there is a perception by people that their product is being taxed unfairly as compared to other goods, then you have not avoided that problem. Are there any questions on that?

The Chairman: So by exempting food and drugs, we have really created a problem.

Mr. Friedman: You did not exempt food, remember; it is tax-free. "Exempt" means perhaps exempt only at one rate level.

The Chairman: Maybe we are talking only about basic groceries. With that, let us talk about it later.

Mr. Weyman: You have a good question: what is a basic grocery?

Mr. Friedman: I certainly do not have an answer, but I would assume basic groceries are those currently exempt—and I could be wrong—under the federal sales tax scheme.

[Traduction]

M. Friedman: Exactement. Est-ce qu'elle permet de régler les problèmes actuels? C'est pour cela qu'on la propose, à cause de ces problèmes. Je ne sais pas si vous voulez avoir beaucoup de détails. . . Les problèmes sont énumérés du côté gauche. Voulez-vous en parler?

M. Layton: Oui. Je pense que nous sommes tous d'accord.

M. Friedman: Vous connaissez les problèmes. Le régime actuel désavantage les fabricants canadiens et la taxe de vente multistades met les importateurs et les fabricants canadiens sur un pied d'égalité; ce problème est réglé. Le régime actuel favorise les labels privés. On laisse entendre que, les consommateurs payant la taxe de vente, les labels privés perdraient tout avantage fiscal actuel.

Administration arbitraire: On règlera ce problème tant que les transactions exemptes de taxe seront clairement définies. Les règles permettant de distinguer les achats admissibles au crédit et non admissibles peuvent causer des problèmes. Mais plus les règles sont claires, moins l'administration sera arbitraire.

L'établissement de la valeur indicative au hasard, qui entraîne le paiement de taxes arbitraires devrait disparaître aussi.

Pour ce qui est de la superposition des taxes, cela dépend. La TVA, la TBS—la méthode de facture de crédit ou la méthode soustractive permet de régler le problème de superposition au niveau fédéral uniquement. Si les provinces ne participent pas, on aura toujours le problème de superposition des taxes. Toutefois, l'instauration d'une taxe de vente nationale réglerait aussi ce problème. Nous parlerons demain des différences entre la TVA, la TBS et la TVN.

Avantage accordé aux biens taxés: les biens détaxés continueront malheureusement de bénéficier d'un traitement préférentiel et si les gens ont l'impression que leur produit est injustement taxé comparativement à d'autres biens, le problème reste alors entier. Y a-t-il des questions?

Le président: Ainsi, en exonérant les aliments et les médicaments, nous avons créé un problème.

M. Friedman: Vous n'avez pas exonéré les aliments, ne l'oubliez pas; ils sont détaxés. Les biens «exonérés» ne le sont peut-être qu'à un maillon de la chaîne commerciale.

Le président: Nous parlons peut-être seulement de produits d'épicerie de base. Nous y reviendrons plus tard.

M. Weyman: C'est là une excellente question: qu'est-ce qui constitue un produit d'épicerie de base?

M. Friedman: Je ne connais certainement pas la réponse à cela mais j'imagine que les produits d'épicerie de base sont ceux qui sont actuellement exonérés—je pourrais me tromper—en vertu du régime actuel de taxe de vente fédéral.

[Text]

Mr. Warner: What is the significance of the private labels?

Mr. Friedman: If you have a department store right now, for example, that sells a brand-name stove, that brand-name stove would attract federal sales tax on the manufacturer's selling price, say, to the retailer if it went directly to the retailer. That sale price would include warranty costs, distribution costs, advertising undertaken by the manufacturer, so the tax would be on the full selling price.

That manufacturer or another manufacturer might approach the department store and say they will sell them a no-name or private-label good: you undertake the advertising; you undertake the distribution and/or the warranty; we will give you a reduced price because we do not have to spend that. But that all occurs after the federal sales tax taxing point.

Now, I think you can avoid some of the problems if there is a wholesale trade level, but to the extent that the wholesale trade level has disappeared in certain industries and manufacturers sell to retailers, there are complaints that the brand-name goods are being taxed on the full amount while the private-brand label goods are taxed only on the manufacturers' costs plus a margin.

The Chairman: I believe there are no other questions, and it is 10 p.m. The meeting is adjourned until tomorrow at 9.30 a.m. in Room 112-N.

[Translation]

M. Warner: Qu'entend-on par étiquette privée?

M. Friedman: Si, par exemple, un grand magasin vend actuellement une marque connue de cuisinières, la taxe de vente fédérale serait ajoutée au prix de vente du fabricant et devrait être acquittée par le détaillant s'il achetait directement cette cuisinière. Le prix de vente comprendrait les frais de garantie, de distribution et de publicité assumés par le fabricant et la taxe porterait donc sur le prix de vente intégral.

Ce fabricant ou un autre pourrait offrir de vendre à ce grand magasin un bien sans marque commerciale connue ou de marque privée à condition que le grand magasin assume lui-même les frais de publicité, de distribution ou de garantie en échange de quoi il obtiendrait un rabais du fabricant qui lui n'aurait pas à assumer ces frais. Mais tout cela se produit après que la taxe de vente fédérale a été perçue.

Or, je crois qu'il serait possible d'éviter certains de ces problèmes si la taxe est prélevée au niveau du gros mais si ce dernier maillon manque dans certaines industries et que les fabricants vendent directement aux détaillants, les fabricants de produits de marque se plaignent d'avoir à acquitter la taxe sur le plein montant alors que les biens de marque privée ne sont taxés que sur les coûts du fabricant majorés de la marge bénéficiaire.

Le président: Je crois qu'il n'y a pas d'autres questions et comme il est 22 heures, la séance est levée. Nous nous réunirons de nouveau demain à 9h30 dans la salle 112-N.



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HOUSE OF COMMONS

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Chairman: Don Blenkarn

CHAMBRE DES COMMUNES

Fascicule n° 134

Le mardi 26 janvier 1988

Président: Don Blenkarn

*Minutes of Proceedings and Evidence of the
Standing Committee on*

Finance and Economic Affairs

*Procès-verbaux et témoignages du Comité
permanent des*

Finances et des affaires économiques

RESPECTING:

Pursuant to Standing Order 96(2), consideration of
the White Paper and other related documents on
Tax Reform—Stage II (Sales Tax)

CONCERNANT:

En vertu de l'article 96(2) du Règlement, étude du
Livre blanc et autres documents connexes, ayant
trait à la réforme fiscale—deuxième étape (Taxe de
vente)

Second Session of the Thirty-third Parliament,
1986-87-88

Deuxième session de la trente-troisième législature,
1986-1987-1988

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Aideen Nicholson
Marcel R. Tremblay
Norman Warner

(Quorum 7)

Marie Carrière
Clerk of the Committee

COMITÉ PERMANENT DES FINANCES ET DES
AFFAIRES ÉCONOMIQUES

Président: Don Blenkarn

Vice-président: Robert E.J. Layton

Membres

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Aideen Nicholson
Marcel R. Tremblay
Norman Warner

(Quorum 7)

Le greffier du Comité
Marie Carrière

Paper and other related documents on Tax Reform—Stage II (Sales Tax) tabled in the House of Commons on Thursday, June 18, 1987. (*See Minutes of Proceedings and Evidence, Monday, January 25, 1988, Issue No. 133.*)

By unanimous consent, it was agreed,—That, the Committee resolve itself into an *in camera* meeting for the consideration of its future business.

At 3:32 o'clock p.m., in accordance with its mandate under Standing Order 96(2), the Committee resumed consideration of the White Paper and other related documents on Tax Reform—Stage II (Sales Tax) tabled in the House of Commons on Thursday, June 18, 1987. (*See Minutes of Proceedings and Evidence, Monday, January 25, 1988, Issue No. 133.*)

The Research Staff made a presentation and answered questions.

At 4:59 o'clock p.m., the sitting was suspended.

At 5:04 o'clock p.m., the sitting was resumed.

Robert Layton took the Chair.

At 5:25 o'clock p.m., the Committee adjourned to the call of the Chair.

Marie Carrière
Clerk of the Committee

Livre blanc et autres documents connexes ayant trait à la réforme fiscale—Deuxième étape (Taxe de vente), documents déposés sur le bureau de la Chambre des communes le jeudi 18 juin 1987. (*Voir Procès-verbaux et témoignages du lundi 25 janvier 1988, fascicule n° 133.*)

Par consentement unanime, il est convenu,—Que le Comité adopte le huis clos pour déterminer ses futurs travaux.

À 15 h 32, conformément au mandat que lui confie le paragraphe 96(2) du Règlement, le Comité examine de nouveau le Livre blanc et autres documents connexes ayant trait à la réforme fiscale—Deuxième étape (Taxe de vente), documents déposés sur le bureau de la Chambre des communes le jeudi 18 juin 1987. (*Voir Procès-verbaux et témoignages du lundi 25 janvier 1988, fascicule n° 133.*)

Le personnel de recherche donne un exposé et répond aux questions.

À 16 h 59, le Comité interrompt les travaux.

À 17 h 04, le Comité reprend les travaux.

Robert Layton occupe le fauteuil.

À 17 h 25, le Comité s'ajourne jusqu'à nouvelle convocation du président.

Le greffier du Comité
Marie Carrière

EVIDENCE

[Recorded by Electronic Apparatus]

[Texte]

Tuesday, January 26, 1988

• 0934

The Chairman: We are resuming our consideration under Standing Order 96.(2) of the white paper on sales tax. Our witnesses are Andy J. Friedman, C.A.; Lorey Hoffman; and Peter H. Wood, C.A. Mr. Hoffman. I think that is where we start, is it not?

• 0935

Mr. A.J. Friedman (Individual Presentation): Yes, I am going to continue, with Peter interjecting in the middle to give you a respite from listening to my voice.

Last night we covered the bare essentials. Today we can get into some more of the details of how the tax will work. In this module, we will contrast the GST or what somebody called last night the BTT—there seems to be a change of initials every few months, but the GST and BTT are similar—with the government's proposals for VAT. We will go through a specific example and compute tax both ways to show you how you would do that. We will then describe briefly a national sales tax, which is the tax proposed to be applied in co-operation with provinces. Then we can compare bearing the tax with breaking the tax out. By the end of this module you should be able to, on a general basis, compute the tax liability for the average business.

Now, page 2-1 is a very important point to start with. New Zealand GST is not equivalent to Canadian GST. It is a twist of fate that they are called the same. They may be called the same thing, but they are definitely not the same.

The New Zealand GST is closer to a traditional credit invoice method. Adoption of a Canadian GST would not imply adoption of a New Zealand GST. They are not the same animals. It is unfortunate, because you see in the press sometimes that if we adopt the GST we would be adopting the New Zealand system.

I look at a summary of the New Zealand tax, and one of the key points is that the amount of a registered person's output tax, minus the amount of his input tax, is paid to the Inland Revenue Department periodically. If input tax exceeds output tax, the difference is claimed back from the Inland Revenue Department. Clearly, it is much more of a European credit method. If you flip through this booklet—and you are welcome to look at it at your leisure—they stress the importance. The importance of obtaining and retaining invoices from

TÉMOIGNAGES

[Enregistrement électronique]

[Traduction]

Le mardi 26 janvier 1988

Le président: Nous reprenons l'étude du Livre blanc sur la taxe de vente conformément à l'article 96.(2) du Règlement. Nos témoins sont MM. Andy J. Friedman, C.A., Lorey Hoffman et Peter H. Wood, C.A. Monsieur Hoffman. C'est par vous que nous commençons, n'est-ce pas?

M. A.J. Friedman (à titre personnel): Oui, je vais poursuivre et Peter m'interrompra de temps à autre pour faire quelques observations afin que vous ne vous endormiez pas au son de ma voix.

Hier soir, nous avons parlé des principes généraux. Aujourd'hui, nous pouvons examiner plus en détail comment la taxe sera appliquée. Nous allons comparer la TBS qui est, en fait, la même chose que la taxe sur les transactions commerciales dont quelqu'un a parlé hier soir—apparemment, cette taxe change de nom régulièrement—avec la TVA que propose le gouvernement. A partir d'un exemple précis, nous calculerons le montant de la taxe des deux façons pour vous montrer la différence. Nous décrirons ensuite brièvement la taxe de vente nationale que le gouvernement propose d'appliquer en collaboration avec les provinces. Nous pourrions ensuite voir quelle est la différence quand la taxe est indiquée ou cachée. D'ici la fin de ce module, vous devriez pouvoir calculer la taxe pour une entreprise moyenne.

Il y a une précision importante à apporter au sujet de la page 2-1. La TBS néo-zélandaise ne correspond pas à la TBS canadienne. C'est par pur hasard que les deux taxes portent le même nom. En fait, elles ne sont absolument pas comparables.

La TBS néo-zélandaise se rapproche davantage de la méthode traditionnelle de crédits et factures. Si nous adoptons la TBS canadienne, ses effets ne seront pas les mêmes que ceux de la TBS de Nouvelle-Zélande. Malheureusement, la presse laisse parfois entendre que, si nous adoptons la TBS, nous adopterons le système néo-zélandais.

D'après ce que j'ai pu lire dans une brochure sur la taxe de Nouvelle-Zélande, une personne enregistrée doit payer périodiquement au ministère du Revenu le montant de la taxe sur ses extrants, moins le montant de la taxe sur ses intrants. Si la taxe sur les intrants dépasse la taxe sur les extrants, l'intéressé demande au ministère du Revenu de lui rembourser la différence. En fait, il s'agit davantage d'une méthode de crédit à l'européenne. Si vous feuilletez cette brochure, ce que je vous invite à faire, on y insiste sur l'importance d'obtenir des factures des fournisseurs

[Text]

registered suppliers cannot be over-stressed. This is in section 20.(2) of their law.

It is important for them to be able to identify the invoice; that is, either identifying the invoice that has tax included—because they do give the choice of either bearing the tax or breaking it out—or identifying the tax on those invoices.

The Chairman: Perhaps I can stop you for a moment. They do in fact give you a choice, though, of not putting the tax on the invoice in New Zealand.

Mr. Friedman: You are correct.

The Chairman: Yes, and of course what we are concerned about finding out is to what extent that in fact occurs. Looking at our own sales tax experience on the federal sales tax, for example, I would suggest—and maybe I am wrong—that at least half, and probably much more than half, of sales by manufacturers do not break out the manufacturer's sales tax in the invoice to the purchaser.

Mr. Friedman: That is correct.

The Chairman: So in effect our present way of doing business is generally to leave the tax buried in the system.

Mr. David Weyman (Committee Consultant): Mr. Chairman, I have an observation on that. In the present system, the purchaser from the manufacturer is not seeking to claim a credit in respect of the tax the manufacturer has paid. It is a once and for all tax paid at the manufacturer's, or in some cases the wholesaler's, level under our present system.

The real question, when it comes down to it, in terms of the proposed systems, alternative systems, whether it is VAT or GST in Canada, is what will be needed so that the purchasers, the customers at each intermediate stage in the business chain, will be able to claim a credit in respect of the tax paid at the previous stage in the chain, both to satisfy themselves as businesses complying with the system and also from the point of view of government being able to audit and administer that system.

• 0940

The Chairman: I understand that. What is bothering me, of course, is when you get to the retail level it would seem to me a horror show for a retailer to try to show on the face of it the price, then add the federal tax, then add the two together, and then multiply out to get a provincial tax on top of that. It would be the kind of thing that would make it very difficult to display goods. Your tax computations, assuming eight and say seven, is not fifteen, it is eight plus the seven on the price plus the eight. It would seem to me if I were a retailer with that kind of a double system I be in the position of always quoting fed tax included into my prices, simply because I would not want to confuse my customer, or I would not want to be in a position of having so much tax on that the person thought they were buying something for \$1 and it turns out to be \$1.25 or \$1.23 or something like that, which would be such a huge increase in price that they would

[Translation]

enregistrés et de les conserver. Cela figure à l'article 20.(2) de la loi de Nouvelle-Zélande.

Il est important, pour les Néo-Zélandais, de pouvoir faire la différence entre les factures dans lesquelles la taxe est incluse et celles auxquelles la taxe est ajoutée étant donné que la taxe peut être, au choix, cachée ou indiquée.

Le président: Je voudrais vous interrompre un moment. En fait, en Nouvelle-Zélande, vous êtes libre de ne pas indiquer la taxe sur la facture.

M. Friedman: Vous avez raison.

Le président: Bien sûr, il s'agit de voir dans quelle mesure cela se produit. D'après notre propre expérience avec la taxe de vente fédérale, par exemple, je dirais, mais je me trompe peut-être, qu'au moins dans la moitié des cas, et sans doute davantage, le fabricant n'indique pas le montant de la taxe sur la facture qu'il donne à l'acheteur.

M. Friedman: C'est exact.

Le président: Par conséquent, le système actuellement en vigueur a généralement pour effet de cacher la taxe.

M. David Weyman (conseiller du comité): Monsieur le président, j'ai une observation à faire à ce sujet. Selon le système actuel, la personne qui achète des marchandises au fabricant ne demande pas de crédit pour la taxe payée par le fabricant. Cette taxe est payée une fois pour toute par le fabricant ou, dans certains cas, par le grossiste.

En ce qui concerne les nouveaux systèmes proposés pour le Canada, qu'il s'agisse de la TVA ou de la TBS, il s'agit de savoir comment faire en sorte que les acheteurs, les clients qui achètent les biens à chaque étape de la chaîne de distribution, puissent demander un crédit pour la taxe payée à l'étape précédente. Il faut, à la fois, que les entreprises puissent se conformer au système et que le gouvernement soit en mesure de contrôler et d'administrer le système en question.

Le président: Je comprends cela. Bien sûr, je vois un problème au niveau du détail où le commerçant s'arrachera les cheveux s'il doit indiquer le prix, et ajouter la taxe fédérale, additionner les deux et faire une multiplication pour y ajouter la taxe provinciale. Il serait très difficile d'afficher le prix des marchandises. En supposant que les deux taxes soient de 8 et de 7 p. 100, vous ne vous contentez pas d'ajouter 15 p. 100 de taxe. Vous devez calculer 8 p. 100 plus 7 p. 100 du prix, plus les 8 p. 100. Si j'étais commerçant, je serais sans doute tenté d'inclure toujours la taxe fédérale dans mes prix pour ne pas semer la confusion dans l'esprit de mes clients ou pour éviter que la personne qui pensait payer un article 1\$, se voit obligée de déboursier 1.25\$ ou 1.23\$. Cela représente une telle différence de prix qu'elle risque de manquer d'argent pour payer son achat.

[Texte]

not have the money in their pocket to pay for their purchase.

Mr. Friedman: I do not disagree with that, and I am stealing a little bit of Peter's punch when we compare tax-in and tax-out pricing. In Europe, at the retail level anyway, the tax is buried.

The Chairman: Is it not buried also at the wholesale level?

Mr. Friedman: No, it is not.

The Chairman: They do not tend to bury at the wholesale level?

Mr. Friedman: No.

Mr. Peter H. Wood (Individual Presentation): In fact they cannot, because a business in Europe to get a credit has to have an invoice with the tax on it. It is a credit invoice method, so it is never buried, it is always shown separately between businesses.

The Chairman: On the typical BTT, what you do, if you are using the subtraction method, you take all your taxable purchases at whatever rate you have, and then you subtract and multiply by the effective tax rate.

Mr. Friedman: I keep going back to you cannot assume that all purchases are taxable.

The Chairman: Why can you not? Why can you not assume that anything you buy zero-rated is taxable at zero rate, and anything you buy taxable at 15% is taxable at 15%? Why can you not assume all your purchases of a designated class are taxable; and why can you not then do the subtraction method? Why do you have to specifically credit-invoice every specific invoice?

Mr. Friedman: Nothing says you have to do it. We get back to what you want to do. Do you want to keep track of all your purchases? Whether they are capitalized, or whether they are on work order, or whether they are in inventory, or wherever they are, you are going to have to keep track of either your purchases taxed and, perhaps, untaxed in a separate bucket, or you are going to have to keep track of tax on purchases.

The Chairman: Right now any business keeps track of its purchases, and almost every business I know of has a trial balance or something of that nature where they keep track of their purchases by the month. There should be nothing difficult about keeping track of qualifying purchases.

Mr. Friedman: You are probably looking at a very small business. But I would suggest that in an organization with perhaps hundreds of locations and everything from reimbursements to petty cash accounts to building factories by yourself, where you are not showing the purchase as an inventory where it gets buried in, say, a work order system, it is not that easy to pull out

[Traduction]

M. Friedman: Je suis d'accord avec vous et comme Peter vous le dira lorsque nous comparerons les prix taxe incluse et taxe non incluse. En Europe, la taxe est cachée au niveau du détail.

Le président: Ne l'est-elle pas également au niveau du gros?

M. Friedman: Non.

Le président: Les Européens n'ont-ils pas tendance à la cacher au niveau du gros?

M. Friedman: Non.

M. Peter H. Wood (à titre personnel): Ils ne peuvent pas le faire étant donné qu'en Europe, pour obtenir un crédit, une entreprise doit pouvoir produire une facture sur laquelle la taxe est indiquée. Il s'agit d'un système de crédits et factures si bien que la taxe n'est jamais cachée. Son montant est toujours indiqué séparément d'une transaction à l'autre.

Le président: Avec la taxe sur les transactions commerciales, si vous utilisez la méthode de la soustraction, vous prenez tous vos achats taxés, quel que soit le taux de la taxe, puis vous soustrayez et multipliez par le taux effectif de la taxe.

M. Friedman: Comme je l'ai déjà dit, vous ne pouvez pas partir du principe que tous les achats sont taxés.

Le président: Pourquoi pas? Pourquoi ne pas supposer que toutes les marchandises auxquelles s'applique une taxe de 0 p. 100 sont taxées à 0 p. 100 et toutes celles pour lesquelles la taxe est de 15 p. 100 sont taxées à 15 p. 100? Pourquoi ne pas considérer que tous vos achats d'une certaine catégorie sont taxés et ne pas utiliser la méthode de la soustraction? Pourquoi devez-vous utiliser la méthode des crédits et factures pour chaque facture?

M. Friedman: Rien ne vous y oblige. Il s'agit de voir ce que vous voulez faire. Voulez-vous pouvoir retrouver la trace de tous vos achats? Qu'ils soient capitalisés, qu'ils fassent l'objet d'une commande ou qu'ils figurent dans votre stock, il faut que vous sachiez quels achats taxés et non taxés vous avez effectués ou quel est le montant de la taxe payée à l'achat.

Le président: Toute entreprise conserve un relevé de ses achats et la plupart de celles que je connais conservent un relevé mensuel. Il ne devrait pas être difficile pour elles de retracer les achats donnant droit à un crédit de taxe.

M. Friedman: Vous parlez sans doute d'entreprises de très petite taille. Dans une société qui compte des centaines de succursales et qui doit comptabiliser aussi bien des remboursements aux comptes de petite caisse que la construction d'usines et où les achats se retrouvent enterrés dans un système de commandes, il n'est pas si facile d'obtenir, sur demande, un relevé de tous les achats.

[Text]

purchases on demand. There are so many different places it can be. Given enough time and given enough—

The Chairman: What you are saying is if you go on specific invoices and specific credits, you do put out purchases on demand at the end of the month or period. What is the difficulty of keeping track of them without keeping track of whether they are taxed at one rate or another?

Mr. Friedman: I guess I am confused. To me it seems very simple from both the proposals and from my observation that if I were running a business, every time I made a payment to somebody I would keep track of the tax in a bucket, or—

• 0945

The Chairman: Why?

Mr. Friedman: In order to get the tax credit, or I would keep—

The Chairman: If I am able to file on a subtraction method, why would I have to be bothered worrying about the detail of what particular tax was paid?

Mr. Friedman: In a complex organization, it is not a matter of taking sales less purchases. It does not jump out at you, and I am talking as a bean counter going into a multi-billion dollar organization. It is not as simple as being able to push a button and all the purchases come out at you.

The Chairman: Obviously it is not simple, but what you are asking the bean counter in the future to do is not only count the beans—all of the purchases—but also count the tax on all of the beans. Now, that is a double set of work. If you only have to count the beans, surely to goodness you can subtract beans from beans. But you want us to count beans and tax and then sales and tax, and subtract one tax from another tax, which will quadruple the work of the bean counter.

Mr. Friedman: I apologize for sounding like a broken record, but you are either going to have to count the tax content of the beans or the beans themselves in a separate account. The Department of Finance have done more research into this than I have and their example shows the necessity of keeping a memo account of all purchases.

The Chairman: Obviously everybody has to keep track of his purchases. They are going to deduct them.

Mr. Friedman: There is a separate column where they duplicate the need to account for purchases and we went through it last night. You can find it in the proposals on page 146 in the English version—it is example one—and on page 161 in the French version.

If you look at figure one, the third column says "Input tax creditable amounts (Memo Account)". Now, if it was

[Translation]

Ces achats peuvent avoir été effectués à une foule d'endroits différents. Avec suffisamment de temps et suffisamment. . .

Le président: Vous voulez dire qu'avec la méthode des factures et crédits, vous obtenez la liste des achats, sur demande, à la fin du mois ou de la période. Ne peut-on pas conserver la trace de ces achats sans déterminer, en même temps, s'ils sont taxés à un taux quelconque?

M. Friedman: Je ne comprends pas très bien. D'après les propositions et ce que j'ai pu observer moi-même, cela me paraît très simple. Si je gérais une entreprise, chaque fois que je ferais un paiement à quelqu'un, je conserverais la facture indiquant le montant de la taxe, ou. . .

Le président: Pourquoi?

M. Friedman: Pour obtenir le crédit de taxe, ou je conserverais. . .

Le président: Si je peux employer la méthode de la soustraction, pourquoi me soucier des détails concernant la taxe payée?

M. Friedman: Dans une organisation complexe, il ne s'agit pas simplement de soustraire les achats des ventes. Ce n'est pas si évident. Ce qui peut l'être pour une petite «binerie» ne l'est pas pour une société ayant un chiffre d'affaires de plusieurs milliards de dollars. Il ne suffit pas d'appuyer sur un bouton pour avoir un relevé de tous vos achats.

Le président: Bien sûr, ce n'est pas si simple, mais ce que vous allez désormais demander à la «binerie», c'est non seulement de compter toutes les fèves, autrement dit tous ses achats, mais également de compter la taxe sur toutes les fèves. Cela représente deux fois plus de travail. Si vous vous contentez de compter les fèves, vous pouvez certainement faire la soustraction. Mais si vous voulez que nous comptions les fèves et la taxe puis les ventes et la taxe et de soustraire une taxe d'une autre taxe, cela va quadrupler le travail de la «binerie».

M. Friedman: Excusez-moi de me répéter, mais vous allez devoir compter la taxe incluse dans le prix des fèves ou les fèves dans un compte séparé. Le ministère des Finances a fait une étude plus poussée que moi sur la question et l'exemple qu'il donne montre la nécessité de tenir un compte pour mémoire de tous les achats.

Le président: Il est certain que tout le monde doit conserver un relevé de ses achats pour pouvoir les déduire.

M. Friedman: Il y a une colonne séparée dans laquelle il faut comptabiliser les achats comme nous l'avons vu hier soir. Vous trouverez ces propositions à la page 146 de la version anglaise—il s'agit du premier exemple—et à la page 161 de la version française.

Si vous examinez le tableau un, la troisième colonne s'intitule «sommes ouvrant droit à CTI (pour mémoire)».

[Texte]

enough just to say inventory purchases of \$11,340, why do we need another column to keep track of all the purchases? For instance, \$7,560 goes into capital equipment, so why can we not just take the totals on the bottom and somehow push a button and it comes out? I would suggest it is not that simple. We are looking at two dozen transactions in a year. When you have two million dozen transactions going all over the place, it requires an extra memo account.

Now, if it is even more complicated—that is if the provinces come into the scheme with a national sales tax—then it requires you perhaps to keep 10 or 12 different buckets, depending on what province the purchase was made in.

I am not trying to be smart, but I do think that is very important. It is an important concept; you have to keep track of one or the other. I agree with you. If you were able to take just the sales, less the purchases, and pay tax on the difference, it would be great. But I do not think it works in theory.

Mr. Weyman: A little earlier I think you asked this question: what difference would it make if some of the purchases had been taxed at 15% and some had been taxed at 0%? You could still accumulate all these purchases and their costs and then just deduct the total amount of them at the end of the month.

Let us say, for example, that postage—last line but one—is not taxed. If you include that \$162 in the memo account in that circumstance, sort of recognizing that it has a zero rate applicable to it—it is tax-free, as we discussed last night—then this business will get a deduction of \$162, reducing its sales tax liability in respect of an input that itself had never borne the tax. You could certainly do that arithmetically, but it is going to be one huge hole in the tax system, because at the end of the day, to raise the same amount of tax revenue from all the consumers in the country, the rate is going to have to be ever so much higher if you just extrapolate that for all such items that are in fact taxed at zero rate, are tax-free, and for which a business would then be allowed a deduction.

• 0950

So you do have to differentiate, not only to take out those items that are not deductible anyway like wages, but you also have to take out those items that have not borne tax because they are tax-free.

The Chairman: No, you do not. You have pointed out yourself that you have a reduction in tax if you do that, but that is a question of calculating the quantum and how you pay the tax. There is nothing to say that you cannot deduct in a subtraction system items that have not borne tax. It is just a question of whether you are going to allow specific items to be deducted or not.

For example, if you were going to zero rate food at the farmers, and you get into the situation I discussed with

[Traduction]

S'il suffit d'indiquer 11,340\$ d'achats de stocks, pourquoi avons-nous besoin d'une autre colonne pour inscrire tous les achats? Par exemple, nous avons 7,560\$ de biens d'équipement, alors pourquoi ne pas se contenter de prendre le total au bas de la feuille? Pourquoi ne peut-on pas obtenir tous les chiffres voulus en appuyant sur un bouton? Ce n'est pas si simple. Il y a là deux douzaines de transactions pour l'année. Lorsque vous faites deux millions de douzaines de transactions, vous avez besoin d'un compte pour mémoire supplémentaire.

Cela se complique encore davantage du fait que, si les provinces participent à la mise en oeuvre d'une taxe de vente nationale, vous devrez peut-être tenir 10 ou 12 relevés différents, selon la province dans laquelle l'achat a été effectué.

Cela me paraît très important. Vous devez tenir un registre de vos encaissements et décaissements. Ce serait très bien si vous pouviez vous contenter de payer la taxe sur la différence entre vos ventes et vos achats, mais je ne pense pas que cela puisse marcher.

M. Weyman: Tout à l'heure, je pense que vous avez posé la question suivante: quelle serait la différence si certains achats étaient taxés à 15 p. 100 et d'autres à 0 p. 100? Vous pouvez toujours additionner ces achats et en déduire le montant total à la fin du mois.

Par exemple, disons que l'affranchissement, qui figure à l'avant-dernière ligne, n'est pas taxé. Si vous incluez ces 162\$ dans le compte pour mémoire, étant donné qu'il s'agit d'un article détaxé, comme nous l'avons vu hier soir, l'entreprise obtiendrait une déduction de 162\$, ce qui réduira le montant de la taxe à acquitter sur un intrant qui n'a jamais été taxé. La chose est possible du point de vue arithmétique, mais cela va creuser un grand trou dans les recettes fiscales, car si vous tenez compte de tous les articles détaxés pour lesquelles une entreprise a droit à une déduction, il faudra rehausser énormément le taux d'imposition pour percevoir, de tous les consommateurs du pays, les mêmes recettes fiscales à la fin de la journée.

Il faut établir une distinction, non seulement pour les dépenses, comme les salaires, qui ne sont pas déductibles, mais également pour les articles qui sont détaxés.

Le président: Non, ce n'est pas nécessaire. Comme vous l'avez souligné vous-même, cela réduit le montant de la taxe, mais il s'agit de voir comment la taxe est calculée et payée. Rien ne dit que le système de la soustraction ne permet pas de déduire les articles détaxés. Il s'agit simplement d'établir si certains articles peuvent être déduits ou non.

Par exemple, si vous avez un taux d'imposition de 0 p. 100 sur les produits alimentaires au niveau du producteur

[Text]

you yesterday, that a starch company buys corn from a farmer, the starch company does not know whether that corn is going into alcohol, on which it is going to pay a 15% or 20% tax rate, or whether it is going into laundry starch, which may be a 10% rate, or whether it is going into table corn syrup, on which presumably there will be no tax. Now, presumably on a subtractual system it would be possible to treat the corn as a taxable input, taxable at zero. Is there any reason why you would not want to do that? How else would you conceivably do it?

Mr. Friedman: Under a credit method system the corn never bore tax and therefore you get no credit for tax on corn. You never paid it. Now, what you are suggesting to me is that magically somehow under a GST or a subtractive method you can get a deduction for that corn. I would suggest that if the law is written properly that would be a fraudulent statement. If you deducted something on which you never paid tax you are not entitled to a credit deduction.

The Chairman: Sure. Surely the corn is the principal input in the product you are producing; that means your tax is not on your value added, but it is on somebody else's value added.

Mr. Friedman: It is on all value added.

The Chairman: Well, it is on someone else's value added, which in effect creates a real unfairness with respect to the tax to that particular product, does it not?

Mr. Friedman: No, it does not. The only reason you would ever get a credit on the corn, if your supplier has paid the tax on the corn, is to get you back to a tax-free input. By collecting tax on your selling price all you are doing is imposing a tax on the selling price. Whether you paid tax on your inputs and now get a credit for it, or never pay tax on it and do not get a credit for it, you come to the same results. You end up passing the whole tax on to the next party in the stage. I really do not understand what the hang-up is. In either case, if you sell the alcohol for \$100, we tack on 15% tax on it, you collect the 15%. If the corn cost you \$10 plus 80¢ tax you get the credit for the 80¢ tax, you are back to \$10; you are back to what you would have been had you never paid tax on the input.

I really do not understand where the concern is. I understand your concern that some people will be able to get a deduction on taxed purchases, but. . .

• 0955

The Chairman: I do not see any problem in allowing a deduction for zero-taxed purchases. I said zero-taxed purchases, I did not say exempt purchases.

[Translation]

agricole et si, selon l'exemple dont j'ai parlé avec vous hier, un fabricant d'amidon achète du maïs à un agriculteur, ce fabricant ignore si ce maïs va servir à fabriquer de l'alcool, sur lequel il y aura une taxe de 15 ou 20 p. 100, ou s'il servira à fabriquer de l'amidon pour la lessive, qui sera taxé, disons à 10 p. 100, ou encore s'il servira à faire du sirop de maïs qui, en principe, ne sera pas taxé. Le système de la soustraction devrait permettre de considérer le maïs comme un intrant taxé à 0 p. 100. Pour quelle raison ne voulez-vous pas le faire? Quelle autre solution proposez-vous?

M. Friedman: Selon le système de crédits, le maïs n'ayant jamais été taxé, vous n'obtenez aucun crédit pour la taxe sur le maïs. Vous n'avez jamais payé de taxe. A vous entendre, par l'opération du Saint-Esprit, la TBS ou la méthode de la soustraction vous permet d'obtenir une déduction pour ce maïs. Vous n'avez pas droit à un crédit de taxe si vous n'avez jamais payé la taxe en question.

Le président: Bien sûr. Le maïs constitue le principal intrant dans le produit que vous fabriquez; autrement dit, la taxe que vous payez s'applique à la valeur ajoutée non pas par vous, mais par quelqu'un d'autre.

M. Friedman: Elle s'applique à toute la valeur ajoutée.

Le président: Il s'agit de la valeur ajoutée par quelqu'un d'autre, ce qui crée une véritable injustice en ce qui concerne la taxe imposée sur ce produit, n'est-ce pas?

M. Friedman: Non. Si vous obtenez un crédit pour le maïs, à la condition que votre fournisseur ait payé la taxe sur le maïs, c'est uniquement pour que vous obteniez un intrant détaxé. En percevant une taxe sur votre prix de vente, on impose une taxe sur le prix de vente en question. Ou bien vous avez payé une taxe sur vos intrants et vous obtenez un crédit pour cette taxe, ou bien vous n'avez jamais payé de taxe et vous n'obtenez pas de crédit. Le résultat est le même. En fin de compte, c'est le maillon suivant de la chaîne de distribution qui paie la totalité de la taxe. Je ne comprends pas très bien où est le problème. Dans un cas comme dans l'autre, si vous vendez l'alcool 100\$, nous imposons une taxe de 15 p. 100, et vous recouvrez les 15 p. 100. Si le maïs vous coûte 10\$, plus 80c. de taxe, vous obtenez un crédit de 80c., ce qui ramène votre prix d'achat à 10\$; vous vous retrouvez au même point que si vous n'aviez jamais payé de taxe sur l'intrant.

Je ne comprends pas ce qui vous inquiète. Bien sûr, vous craignez que certaines personnes puissent obtenir une déduction sur des achats taxés, mais. . .

Le président: Je ne vois aucune difficulté à ce que l'on accorde une déduction en fonction des fournitures détaxées. Je parlais de fournitures détaxées et non pas de fournitures exonérées de taxe.

[Texte]

Mr. Friedman: I do not understand why you would allow a deduction for something on which you never paid tax, or something such that there was no tax content on the purchase. It goes back to saying the only reason—

The Chairman: The question is whether you are deducting tax or you are deducting costs.

Mr. Weyman: No, that is not the... no, definitely not.

Mr. Friedman: No.

The Chairman: Okay. Carry on.

Mr. Weyman: I think it is important, Mr. Chairman, in the context of this discussion, to add one thing. I think what is critical from the consumer's point of view is whether or not at the retail level, where the household or consumer buys the goods, the goods are tax-free or not. If the goods are tax-free at the consumer level, then indeed the consumer pays no tax on those goods. That really is the only critical issue. If you are looking ultimately at relieving consumers of tax on a particular good or a particular service, it is at the retail level that the tax must be relieved.

What goes on before that in the distribution chain is a neutralizing effect at each stage of the chain, from manufacturer to wholesaler, wholesaler to distributor, distributor to retailer, and so on. As Andy Friedman has just said, whether you impose the tax and allow a credit for it or do not impose the tax and do not allow a credit for it, it is identical; it is neutral. Those are purely mechanics, if you like. It leads to a simpler system or it leads to a more complex system. But the key issue in relieving consumers from this tax is that there should be no tax imposed at the retail level. That is the only issue.

Mr. Cassidy: If you are taking the example of food, what you are putting your finger on is partly the fact that when you buy food in a grocery store, there are a number of other inputs into that food besides what the farmer took from the soil. An exemption for food will exempt some of those other inputs and not exempt others, unless you have a zero-rated system.

To be specific, all the labour involved—which adds value to the food—in taking it from the farm to the processor, in processing it, in transporting it and then selling it, can be exempted from tax if it is attached to food if food is not taxed as it goes up through the chain and if it is not taxed at the end. But it is much harder to exempt from tax the cellophane, the paper, the fuel, the purchased transportation services, the advertising, and those kinds of things, which are also a cost of the food that is ultimately sold to the consumer in Loblaws. Therefore the food that is tax-free will in fact be partially—

Mr. Friedman: No, it would not. Well, I guess it is unfair for me to say no, it would not, given that... If you

[Traduction]

M. Friedman: Je ne comprends pas pourquoi on accorderait une déduction en fonction d'une taxe que l'on n'aurait jamais payée ni directement ni indirectement. Cela reviendrait à dire que la seule raison...

Le président: La question est de savoir si l'on déduit des taxes ou des frais.

M. Weyman: Non, ce n'est pas cela, absolument pas.

M. Friedman: Non.

Le président: Très bien. Je vous écoute.

M. Weyman: Monsieur le président, il me paraît important d'ajouter quelque chose dans le cadre de cette discussion. Ce qui importe avant tout, c'est si les biens qu'achète le consommateur au détail sont détaxés ou non. S'ils sont exonérés au détail, le consommateur ne paie alors pas de taxe sur ces biens. C'est vraiment autour de cela que tourne toute la question. Si nous avons l'intention de dispenser les consommateurs de la taxe sur un bien ou un service en particulier, c'est au niveau de la vente au détail qu'il faut le faire.

Il y a un effet neutralisant à chaque étape de la chaîne de distribution avant que les biens ne parviennent à l'étape de la vente au détail, du fabricant au grossiste, du grossiste au distributeur, du distributeur au détaillant, et ainsi de suite. Comme Andy Friedman le disait tout à l'heure: Que l'on impose une taxe en accordant un crédit, ou que l'on n'impose pas de taxe et que l'on n'accorde pas de crédit, c'est du pareil au même; l'effet est neutre. C'est une question d'ordre purement technique si vous voulez. On aboutit ainsi à un système plus simple ou à un système plus complexe. Mais la question qui importe vraiment, la seule, si l'on veut dispenser les consommateurs de cette taxe, c'est qu'il ne faudrait pas imposer de taxe au stade du détail.

M. Cassidy: Prenons le cas des aliments, par exemple. Ce que vous dites fait en partie ressortir le fait que le prix des aliments reflète déjà bien d'autres intrants depuis le moment de leur production initiale. En exonérant de taxe les aliments, certains de ces autres intrants seront libres de taxe et d'autres pas, à moins que l'on applique un système de détaxe.

Pour être plus précis, toute la main-d'oeuvre utilisée—qui ajoute de la valeur aux aliments—pour amener les aliments de la ferme à l'étape du traitement, et pour leur traitement, leur transport et leur vente, peut être exonérée quand elle se rattache aux aliments, si les aliments ne sont pas taxés au cours de leur cheminement dans la chaîne ni à l'étape finale. Mais il est beaucoup plus difficile d'exonérer de taxe le cellophane, le papier, le carburant, le transport, la publicité, et tous les éléments de ce genre, qui entrent aussi dans le prix de revient des aliments qu'achètent en bout de course le consommateur chez Loblaws. Ainsi, les aliments qui sont détaxés seront en fait en partie...

M. Friedman: Non, ce n'est pas cela. Je ne devrais peut-être pas dire cela mais... Si vous aviez été ici hier

[Text]

had been there last night... we talked about the difference between exemption and zero-rating or tax-free. It has always been my view that when the government says there will be no tax on food, what it means is that food will be tax-free or zero-rated. In your example, if you go to Loblaw's, Loblaw's will not charge the consumer tax on food, but they will get full credit for all their inputs. If they get full credit for all their inputs, then your problem disappears.

The Chairman: Why? Why would you do that?

Mr. Cassidy: Then you have a problem, though. Let us take Loblaw's, for example.

The Chairman: Why would you do that?

Mr. Cassidy: At present something like 15% or 18% of what they sell is subject to provincial sales tax. The way merchandising is developing, with hyper-markets and that kind of thing, it may well be that in future 30% or 40% of what is sold through a food market will be taxable.

• 1000

Mr. Friedman: But on those items you will get taxed on the full amount, which includes the portion of advertising, warranties, cellophane, whatever, that relates to those items. So in effect you tax those that—

Mr. Cassidy: You are going to have to take the big ads that appear in the weekend papers then and you are going to have to decide how much of that is attributable to food and how much is attributable to the taxable goods and services.

Mr. Friedman: No, because everything in a system... We go back to the example last night. All we are doing is imposing a retail sales tax in stages, but at each stage all you are doing is giving the tax back to the previous party, who paid it on the promise that, on items that are taxable, you are going to pay tax not on the value added by the supermarket but on the whole amount of the good. So if Loblaw's tomorrow decides to sell automobiles for \$20,000, then the whole \$20,000 would attract tax, with Loblaw's getting a credit for all purchases because they have withheld tax on the whole amount.

The Chairman: I do not think that is a possibility. I really think you cannot zero-rate food. You have to exempt Loblaw's—

Mr. Friedman: No.

The Chairman: —but you cannot zero-rate them.

Mr. Friedman: I am willing to go back if you want to go back, and let us review what we did last night, because it is very important. This is key.

The Chairman: Yes.

[Translation]

soir... Nous avons parlé de la différence entre l'exonération et la détaxe ou un taux de taxe de zéro. J'ai toujours pensé que, lorsque le gouvernement dit qu'il n'y aura pas de taxe sur les aliments, cela signifie qu'ils seront détaxés ou que le taux de taxe sera de zéro. Pour reprendre l'exemple que vous utilisez, Loblaw's n'imposera pas de taxe au consommateur sur les aliments, mais obtiendra un crédit pour tous ses intrants. Cela règle donc le problème que vous soulevez.

Le président: Pourquoi? Pourquoi fonctionner de cette façon?

M. Cassidy: Cela pose toutefois une difficulté. Prenons le cas de Loblaw's, par exemple.

Le président: Pourquoi fonctionner ainsi?

M. Cassidy: À l'heure actuelle, de 15 à 18 p. 100 des produits que vend Loblaw's sont assujettis à la taxe de vente provinciale. De la façon dont les choses évoluent, avec la tendance à créer de plus en plus de supermarchés, il peut fort bien arriver qu'on en vienne à ce que 30 p. 100 ou 40 p. 100 des produits vendus dans un marché d'alimentation soient taxables.

M. Friedman: Mais la taxe sera imposée sur le plein prix, ce qui comprend la portion de la publicité, de la garantie, de la cellophane, et de tout ce qui entre dans le prix de ces articles. Cela signifie donc que l'on taxe tous les intrants...

M. Cassidy: Il va donc falloir tenir compte des grandes annonces qui paraissent chaque week-end dans les journaux et déterminer quelle partie de ces annonces est liée aux aliments et quelle partie se rattache aux biens et services taxables.

M. Friedman: Non, parce que dans le système, tout est... Nous en revenons à l'exemple d'hier soir. Tout ce que nous faisons, c'est imposer une taxe de vente au détail multi-stades, mais à chaque étape, on remet la taxe à l'intervenant précédent qui l'a acquittée sachant que, sur les articles taxables, on n'est pas censé payer de taxe sur la valeur ajoutée par le supermarché, mais sur le prix total du bien. Ainsi, si Loblaw's décidait demain matin de vendre des automobiles à 20,000\$, la taxe porterait sur les 20,000\$, et Loblaw's obtiendrait un crédit en fonction de tous ses achats puisque la taxe aurait été perçue sur le prix total.

Le président: Je ne pense pas que ce soit possible. Je crois vraiment qu'il est impossible de détaxer les aliments. Il faut exonérer Loblaw's...

M. Friedman: Non.

Le président: ... mais on ne peut détaxer les produits qu'elle vend.

M. Friedman: Je peux revenir en arrière, si vous le voulez, et revoir ce dont nous avons discuté hier soir, parce que c'est très important, voire essentiel.

Le président: Oui.

[Texte]

Mr. Friedman: Before David and I met last week or the week before that, I said that if you go away from these sessions knowing only the difference between exempt and tax-free or zero-rated then our job has been done, because if you withhold tax on full selling price of taxable goods then not to give credit to all the inputs means you are double-taxing those goods.

Mr. Cassidy: Wait a minute. No.

The Chairman: No, you are not.

Mr. Cassidy: I think this is more a matter of choice, and if you exempt food—

Mr. Friedman: Now, “exempt”—

Mr. Cassidy: Meaning that it is not taxed.

Mr. Friedman: It is not taxed—

The Chairman: Exempt the grocery store on food items.

Mr. Cassidy: If you exempt the grocery store on food items. That is right.

Mr. Friedman: If you exempt only the grocery store or all of the chain?

The Chairman: No, exempt certain food items, period.

Mr. Friedman: Only at the grocery-store level?

Mr. Cassidy: No, the food as it goes up through the—

Mr. Friedman: So you are going to make the basic groceries tax-free then?

Mr. Cassidy: That is correct.

The Chairman: No, exempt.

Mr. Cassidy: No. I am sorry; that is right. Take the corn, for example, that is going into the starch manufacturer and you do not know if it is going to be used for laundry starch, which is taxable, or in some baked good, which is non-taxable. There is no particular problem there, it seems to me, because if the corn goes up through the chain as food and at a certain point gets diverted into a non-food channel then the tax on the next transfer will capture the taxes that were not levied previously.

Mr. Friedman: But the corollary to that applies too. There is no problem if corn is taxed all the way up the line, because the purchaser, if he or she is not a consumer, gets an instant credit for the tax on the corn.

Mr. Cassidy: Yes.

Mr. Friedman: It is really only the last party, who collects on non-creditable tax, who basically brings in all the tax.

[Traduction]

M. Friedman: Avant d’avoir rencontré David la semaine dernière, ou la semaine d’avant, je disais que, si nous ne parvenions qu’à vous faire comprendre la différence entre l’exonération et la détaxe ou le taux de taxe de zéro, au cours de ces séances, ce serait déjà très bien, puisqu’en prélevant une taxe sur le prix de vente total de biens taxables, sans accorder de crédit en fonction de tous les intrants, cela reviendrait à taxer ces biens en double.

M. Cassidy: Un instant. Non.

Le président: Non, ce n’est pas le cas.

M. Cassidy: Je pense que c’est davantage une question de choix qu’autre chose, et si l’on exonère les aliments. . .

M. Friedman: Vous dites «exonère». . .

M. Cassidy: En ce sens qu’ils ne sont pas taxés.

M. Friedman: Ils ne sont pas taxés.

Le président: Exonérer le magasin d’alimentation pour les articles d’alimentation.

M. Cassidy: Oui, dans ce cas, c’est juste.

M. Friedman: En exonérant seulement le magasin d’alimentation ou toute la chaîne?

Le président: Non, seulement certains articles d’alimentation.

M. Friedman: Au niveau du magasin d’alimentation seulement?

M. Cassidy: Non, l’article d’alimentation dans tout le cheminement. . .

M. Friedman: Vous voulez donc détaxer les aliments de base?

M. Cassidy: C’est juste.

Le président: Non, les exonérer de taxe.

M. Cassidy: Non. Je m’excuse; c’est juste. Prenons le maïs, par exemple, qui est utilisé pour fabriquer de l’amidon; on ne sait pas s’il entrera dans la composition d’un produit d’empesage, qui est taxable, ou d’un produit d’alimentation, qui ne l’est pas. Cela ne me semble pas poser de difficultés particulières puisque, si le maïs est utilisé à des fins d’alimentation et qu’à un certain moment, on l’utilise à d’autres fins, on percevra alors à l’étape suivante les taxes qui ne l’avaient pas été aux étapes précédentes.

M. Friedman: Mais le corollaire à cela est aussi vrai. Il n’y a aucune difficulté si le maïs est taxé à chaque étape de son cheminement puisque l’acheteur, s’il n’est pas un consommateur, obtient un crédit immédiat en fonction de la taxe qu’il a payée sur le maïs.

M. Cassidy: Oui.

M. Friedman: Ce n’est vraiment que le dernier intervenant, celui qui perçoit des taxes ne pouvant pas faire l’objet d’un crédit, qui verse toutes les taxes.

[Text]

Mr. Cassidy: But do you not get into some really serious problems, among other things, of attribution. When I read an ad in Loblaws on the weekend that has "President's Choice"—half of the products of "President's Choice" are taxable—and a quarter of the ad is for taxable products, although 17% or 18% of Loblaws' sales are for taxable products, when you look at it Loblaws increasingly are selling commodities to get people into the stores because a third of their profits now are coming from taxable products. So do you attribute 15%—

Mr. Friedman: No, there is no attribution.

Mr. Cassidy: —25%, or a third of the cost of the ad to the taxable products?

Mr. Friedman: You are withholding tax on the full amount of the taxable good. It is irrelevant how much advertising went into it. The price of that good, which recovers whatever advertising you spent on it, is going to be fully taxed. So where is the loss there?

Mr. Cassidy: But suppose that I spent \$1,000 in advertising and therefore there is \$100 of tax that I have paid on the advertising.

• 1005

Mr. Wood: You get the full \$100 tax back regardless of whether it went into food or into taxable products. You get the full amount back, everything.

Food is tax-free or zero-rated, so you have no problem because all of the inputs are creditable whether they went to tax-free products or taxable products.

Mr. Cassidy: Okay. If food is exempt, on the other hand, then you have the—

Mr. Wood: If food was exempt... exactly, and that is the difference.

Mr. Friedman: It is not meant to be exempt in that situation because you will bear tax on the earlier stages.

Mr. Cassidy: Or alternatively, if food is exempt and you have paid tax on an input like advertising, well, you do not eat the ads in *The Citizen*—at least I hope you do not—and this then gets back to the point of whether you can in fact pick up all of the taxable inputs and rebate the tax in a zero-rated system. What about a meal at the Four Seasons here? You pay \$22 for lunch these days, if you are a Cabinet Minister being taken to lunch by a lobbyist.

Mrs. Collins: They do not have time!

Mr. Cassidy: I have seen them there with lobbyists lately.

Mr. Friedman: They are only supposed to eat 80% of the meal now.

[Translation]

M. Cassidy: Mais cela n'entraîne-t-il de graves difficultés, entre autres, sur le plan de l'attribution? Quand je vois une annonce de Loblaws sur son «Choix du président»—la moitié des produits qu'offre Loblaws sont taxables dans le cadre de son programme du «Choix du président»—et que le quart des produits qu'elle offre sont taxables, bien que 17 ou 18 p. 100 des produits que vend Loblaws soient taxables, je constate que Loblaws vend de plus en plus d'autres produits pour attirer les consommateurs, parce qu'à l'heure actuelle, le tiers de ses bénéfices proviennent de produits taxables. Donc, attribuez-vous 15 p. 100. . .

M. Friedman: Non, il n'y a pas d'attribution.

M. Cassidy: . . . 25 p. 100, ou un tiers du coût de l'annonce aux produits taxables?

M. Friedman: La taxe s'applique sur le prix total du produit taxable. La proportion de publicité n'a rien à voir. Le prix de ce produit, qui comprend le coût de la publicité, sera taxé au complet. Il n'y a donc aucune perte.

M. Cassidy: Mais si j'ai dépensé 1,000\$ en publicité, j'ai payé 100\$ de taxe.

M. Wood: Vous recevez alors un remboursement de 100\$, que la somme ait été consacrée à un produit alimentaire ou à un produit taxable. Vous récupérez le plein montant.

Les aliments sont détaxés ou leur taux de taxe est de zéro; il n'y a donc aucune difficulté puisque tous les intrants peuvent faire l'objet d'un crédit, que ce soit dans le cas de produits détaxés ou de produits taxables.

M. Cassidy: Très bien. Si les aliments sont exonérés, il y a par contre le. . .

M. Wood: Précisément, si les aliments sont exonérés. . . et c'est là la différence.

M. Friedman: Mais ce n'est pas le cas ici, puisque des taxes seront perçues aux étapes précédentes.

M. Cassidy: Ou, dans l'autre sens, si les aliments sont exonérés, et que l'on a payé de la taxe sur un intrant comme de la publicité, on ne mange évidemment pas les annonces dans *The Citizen*—ou je l'espère, en tout cas—et cela nous ramène à déterminer si l'on peut en réalité tenir compte de tous les intrants taxables et rembourser la taxe dans le cadre d'un système où le taux de taxe est de zéro. Qu'en serait-il alors d'un repas que l'on prendrait au Quatre Saisons? De nos jours, un repas coûte environ 22\$ à un lobbyiste qui amène un ministre dîner.

Mme Collins: Ils n'en ont pas le temps!

M. Cassidy: J'en ai vu quelques-uns avec des lobbyistes dernièrement.

M. Friedman: Mais ils ne peuvent manger que 80 p. 100 de leur repas aujourd'hui.

[Texte]

Some hon. members: Oh, oh!

Mr. Layton: This could be tough. There are three of them.

Mr. Cassidy: If there are five people, one does not eat. But in that case though, the meal costs \$22 and in fact the \$20 is value added. The \$2 is the underlying price of the food. How do you handle that?

Mr. Friedman: I think there is no real suggestion in the paper that you would tax the whole amount of the meal, so all \$22 would attract the tax. There is no halfway point. If you wanted to get sexy about it you could say generally, 3% of restaurant meals are food and 97% is everything else so we would have a lower rate of tax on restaurant meals. But you get into real complexities then. Correct me if I am wrong, but I think the assumption is that if you eat in a restaurant the full amount of the meal would be taxed.

The Chairman: That is right.

Mr. Minaker: Getting back to the Loblaw's situation—and my apologies for not being here last night—but would not the cost of that advertising, whether it be for taxable items or non-taxable items, be in their overhead costs to their store and in their selling profit on the goods? And then when you tax the taxable item, they have their overhead profit to cover proportionately the cost of those taxable goods or non-taxable goods. So why would you attack trying to get a tax on their ads?

Mr. Friedman: You would not—

Mr. Minaker: No, but if they are a wholly, completely tax-free, exempt store, they only sold food, so they put an ad in the paper—

Mr. Friedman: Yes.

Mr. Minaker: Then you are not going to tax them at the retail selling price because they are non-taxable.

Mr. Friedman: Yes.

Mr. Minaker: So you would not have to worry about the services or labours that go into that product.

Mr. Friedman: No.

Mr. Minaker: And I would presume the same thing applied in Loblaw's, where say 40% of the goods they sell are taxable and 60% are not, then when you tax at the retail level on those 40% goods, you are going to pick up their overhead and mark-up for the cost of the services and labour that go in and so on. Would you not proportionately get it all back that way and you would not even have to fool around with the tax on the ads?

Mr. Friedman: Well, the tax on the—

Mr. Minaker: You are going to eventually get it—

[Traduction]

Des voix: Oh, Oh!

M. Layton: Ce pourrait être difficile; ils sont trois.

M. Cassidy: S'il y a cinq personnes, l'une d'elles ne mange pas. Mais dans ce cas, toutefois, le repas coûte 22\$, et là-dessus, il y a 20\$ en valeur ajoutée. Les aliments qui entrent dans la composition de ce mets reviennent en réalité à 2\$. Que faites-vous dans un tel cas?

M. Friedman: Il n'y a vraiment rien dans le document qui laisse supposer que la taxe ne s'appliquerait pas au plein prix du repas; la taxe s'appliquerait donc aux 22\$. Il n'y a pas de demi-mesure. Si l'on voulait couper les cheveux en quatre, on pourrait dire qu'en général, 3 p. 100 du prix d'un repas au restaurant vont pour les aliments, et 97 p. 100 pour tout le reste; il faudrait donc imposer une taxe moins élevée sur les repas au restaurant. Mais cela deviendrait vraiment complexe. Corrigez-moi si je fais erreur, mais je crois qu'il est prévu que la taxe s'applique sur la totalité du prix d'un repas au restaurant.

Le président: C'est juste.

M. Minaker: Pour en revenir à la situation de Loblaw's—et je m'excuse si je n'étais pas là hier—mais le coût de cette publicité, que ce soit pour des produits taxables ou non, ne fera-t-il pas partie des frais généraux du magasin et des bénéfices réalisés sur la vente des produits? Ces bénéfices couvrent donc proportionnellement les taxes et le prix de revient de ces produits taxables ou non. Pourquoi, alors, ne pas prélever de taxe sur ces annonces?

M. Friedman: Ce n'est pas. . .

M. Minaker: Non, mais s'il s'agit d'un magasin complètement exonéré de taxe, qui ne vend que des aliments, et qui passe une annonce dans le journal. . .

M. Friedman: Oui.

M. Minaker: Il n'y aura pas de taxe sur le prix de vente au détail parce que les articles ne sont pas taxables.

M. Friedman: Oui.

M. Minaker: On n'aurait donc pas à se préoccuper des services ou de la main-d'oeuvre qui entrent dans la vente de ces produits.

M. Friedman: Non.

M. Minaker: Et je suppose que c'est la même chose pour Loblaw's où, dirons-nous, 40 p. 100 des produits qu'elle vend sont taxables, et 60 p. 100 ne le sont pas. En taxant ces 40 p. 100 de produits à l'étape de la vente au détail, on prélève aussi de la taxe sur les frais des services et de la main-d'oeuvre. Cela ne permettrait-il pas de tout récupérer, proportionnellement parlant, sans se compliquer la vie en taxant ces annonces?

M. Friedman: La taxe sur les. . .

M. Minaker: Mais vous allez la récupérer un jour ou l'autre. . .

[Text]

Mr. Friedman: I mean you are going to eventually—

Mr. Minaker: —on their profits on the sale of goods.

Mr. Friedman: That was the philosophy last night and we are going to go through another example, the payment and credit procedure throughout the stages really is to restore the purchaser back to basically a tax-free condition for their costs. And ultimately, if you tax the selling price to the consumer of items you want to tax, you are going to capture the overhead, you are going to capture everything. Anything that goes into the selling price.

Mr. Minaker: What I am saying is if Loblaws gets everything tax-free, if you give them a credit on everything and then they turn around and sell their product and then you tax them on that item, you are going to pick up all of these—

Mr. Friedman: Exactly!

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Mr. Minaker: So you do not even have to tax Loblaws. If they are the final outlet on their ads or stuff like that, you are just doing paper work, because you will pick it up automatically when they sell the product.

Mr. Friedman: I think what you are getting back to is where we started last night, whether it might not be easier to have a one-stage retail sales tax and only tax those items that you think should be taxed and leave everything else.

Mr. Minaker: No, that is not what I am saying. You give the Loblaws complete tax credits on all their purchases.

Mr. Friedman: Yes, which is what is proposed.

Mr. Minaker: Then you will pick it up in the profit they make on the goods that are—

Mr. Friedman: You pick it up by taxing those items you want to tax.

Mrs. Collins: You probably covered this last night. I am sorry I was not here, but I can read the transcripts. But I still have difficulty in understanding why you would have this multi-level sales tax, which seems so complex, vis-à-vis a retail sales tax.

Mr. Friedman: We go back to a need to ensure that business inputs are not taxed, to make sure tax is applied only once. The only way you can do that is by ensuring that all purchases are tax-free. So you do that by taxing purchases and by refunding the money, but at the consumer level, the refund does not occur, and in fact the tax then ends up being computed properly. The alternative is to have a one-stage tax with a system of exemptions. So I suspect the choice is to either police the

[Translation]

M. Friedman: Oui, un jour ou l'autre. . .

M. Minaker: . . . sur les bénéfices réalisés sur la vente des produits.

M. Friedman: C'est ce dont nous discutons hier soir et nous allons utiliser un autre exemple. La procédure des versements et des crédits, au cours des divers stades, consiste en réalité à faire en sorte que les prix de revient de l'acheteur soient détaxés. Et en bout de course, en imposant la taxe sur le prix de vente au détail des articles que l'on veut taxer, on récupérera la partie des frais généraux, les taxes au complet, tout ce qui entre dans le prix de vente.

M. Minaker: Si tout ce qu'achète Loblaws est détaxé, si elle obtient un crédit pour tout ce qu'elle achète, et qu'elle vend ensuite ses produits qui sont taxés, on récupère toutes ces. . .

M. Friedman: Précisément!

M. Minaker: Il n'est donc même pas nécessaire d'obliger Loblaws à verser des taxes. Si elle est le dernier intervenant dans la chaîne, ce n'est que de la paperasse, puisqu'on récupérera automatiquement les taxes à la vente du produit.

M. Friedman: Je pense que cela nous ramène au point de départ d'hier soir, quand on se demandait s'il ne serait pas plus simple d'opter pour une taxe de vente au détail sans stades multiples et de ne taxer que les produits qui devraient l'être.

M. Minaker: Non, ce n'est pas ce que je dis. On accorde à Loblaws des crédits de taxe complets pour tous ses achats.

M. Friedman: Oui, c'est ce qui est proposé.

M. Minaker: On récupérera ensuite ces taxes à même les bénéfices qu'elle aura réalisés à la vente des produits qui sont. . .

M. Friedman: Oui, en taxant les produits que l'on veut taxer.

Mme Collins: Vous en avez probablement parlé hier soir—je m'excuse si je n'étais pas là, mais je peux lire le procès-verbal—mais je comprends toujours mal pourquoi on préférerait cette taxe de vente multi-stades, qui paraît si complexe, à une taxe de vente au détail.

M. Friedman: C'est en raison de la nécessité de faire en sorte que les intrants commerciaux ne soient pas taxés et de veiller à ce que la taxe ne s'applique qu'une seule fois. La seule façon d'y arriver est de faire en sorte que tous les achats soient détaxés. On taxe donc les achats, et l'on rembourse l'argent, mais il n'y a pas de remboursement au niveau du consommateur et, en réalité, l'application de la taxe est donc appropriée. L'autre possibilité serait une taxe unique agrémentée d'un système d'exonération. Nous

[Texte]

payment and credit procedures or police the system of exemption certificates.

We spent the first 15 or 20 minutes debating it, and I do not have the answer. I do not have the answer as to why European countries chose to go this way rather than a one-stage tax. I do not have the answer as to why this government has proposed it in this way. I know that at the provincial level, anyway, you have a large proportion of cascading because, say, Loblaws, which sells provincial sales taxable goods, is also paying tax on store counters and cash registers and you name it, which then are built into the price, which again attracts tax. So you have a tax on tax, and that really is what we are trying to avoid. By crediting all taxes on your inputs, you avoid that.

The other concern is this. An organization buys a large amount of goods for export, and we are trying to be competitive in the export market. If you did not have this relief on inputs, then every time a corporation decided to export a proportion of its goods, it would have to go back and say: we bought some things; what should be exempt and what should not be exempt? So I think it is a way of convincing businessmen that all the business inputs headed for export have been relieved of taxes.

It is a dilemma. It has been a question to me of the 1.5 million or 2 million taxpayers versus the 60,000 taxpayers you have now. That is the trade-off. What do you get from it? Through your deliberations over the next period, hopefully you should come to some conclusions on this.

Mr. Minaker: I do not know whether or not this question was raised last night. What happens in an electronics outlet where they are selling both retail and wholesale? Will the individual need a licence number if he is a wholesaler? For example, some of these electronics stores will have a showroom and sell directly to the people off the street, but they also have dealers to whom they sell. Manitoba will have these kinds of stores in Winnipeg, but then in the rural areas the dealers come in and buy wholesale from these particular people. How would you break down the tax situation there?

Mr. Friedman: We discussed this in the context of a lumber yard, but an electronics store is just as good.

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Under a value-added tax scheme, either a GSD or VAT scheme, if a retailer went into the store and bought some of these electronic goods then he would be charged, say, the 8% tax, but as soon as the retailer purchased these goods he would get an instant credit so he would be restored to a tax-free status. If you or I went in then we would just pay the tax with the electronic goods and we would not get any relief from that tax.

[Traduction]

avons donc le choix entre l'application d'une procédure de paiements et de crédit ou d'un système d'attestation d'exonération.

Nous avons justement passé les 15 à 20 premières minutes à en discuter, et je n'ai toujours pas la réponse. Je ne sais pas pourquoi les pays européens ont choisi cette taxe multi-stades plutôt qu'une taxe unique. Je ne sais pas davantage pourquoi le présent gouvernement en a fait la proposition. Je sais qu'au niveau provincial, en tout cas, il y a tout un enchaînement de taxes puisque, disons, Loblaws, qui vend des produits assujettis à la taxe de vente provinciale, paie aussi une taxe sur les comptoirs, les caisses enregistreuses et tout ce qu'elle achète, taxe qui est incluse dans le prix, qui est lui aussi taxé. On paye donc une taxe sur une taxe, et c'est ce que nous voulons tenter d'éviter. En remboursant toutes les taxes versées sur les intrants, c'est ce que l'on fait.

Nous voulons aussi aider les entreprises qui achètent de grandes quantités de produits destinés à l'exportation, car nous tentons de demeurer concurrentiels dans ce marché. Si les taxes sur les intrants n'étaient pas remboursées, à chaque fois que la société déciderait d'exporter une partie de ses produits, il faudrait qu'elle demande quels produits sont exonérés et lesquels ne le sont pas. Cela me paraît donc un moyen de convaincre les gens d'affaires que tous les intrants commerciaux en fonction de produits destinés à l'importation sont détaxés.

C'est un dilemme. La question revient à choisir entre les 1,5 million à 2 millions de contribuables et les 60,000 contribuables actuels. C'est à cela que tout tient. Qu'en retire-t-on? J'espère que vos délibérations vous permettront de dégager certaines conclusions à cet égard.

M. Minaker: Je ne sais pas si l'on a soulevé cette question hier soir: qu'en est-il du vendeur d'articles d'électronique qui vend autant au détail qu'en gros? S'il est grossiste, aura-t-il besoin d'une licence? Par exemple, certains magasins d'électronique ont une salle de démonstration et font directement affaire avec les consommateurs, mais ils vendent aussi des produits à des détaillants. Il y a certaines entreprises de ce genre au Manitoba, à Winnipeg, mais dans les régions rurales, les détaillants achètent des articles en gros de telles entreprises. Comment se répartirait la taxe dans un tel cas?

M. Friedman: Nous en avons déjà discuté en prenant le cas d'un fournisseur de bois, mais le principe s'applique tout aussi bien à un magasin d'électronique.

Dans le cadre d'une formule de taxe sur la valeur ajoutée, TBS ou TVA, le détaillant qui achèterait dans cette entreprise des articles d'électronique devrait payer une taxe de 8 p. 100, dirons-nous, mais il obtiendrait par la suite un crédit immédiat et il n'aurait donc pas payé de taxe en définitive. Si vous ou moi allions ensuite acheter l'un de ces produits, nous devrions payer la taxe, et nous n'obtiendrions aucun allègement.

[Text]

An exemption certificate way of doing it is that you as a retailer would go in and either provide a vendor registration number or a licence number—not very differently from the way you would do it in 9 of the 10 provinces who now impose a provincial sales tax. If you were just a consumer then you would just go in, buy the goods, and be charged the tax because you did not provide an exemption certificate—unless you were smart enough to get a vendor registration number and decide, hey, this is a great way of saving tax. But that is obviously not legal.

It imposes a requirement on the retail clerk in those stores to police exemption certificates, whereas under a VAT system they blindly ring up the sale and they do not have to be concerned with whether they are selling to a retailer or to a consumer.

Mr. Wood: In other words, under a VAT system the retailer really has to have no knowledge of his customer; he just charges tax on everything, because if the customer is a business customer then he himself gets a credit.

Mr. Minaker: I can understand how you are going to get your tax. How does the owner of that establishment that has a retail or wholesale outlet get credit for tax he has paid on services or advertising, things like this?

Mr. Friedman: He gets a bill for advertising. He gets charged \$10,000 plus 8%. As soon as he gets that, he just takes a credit on his next remittance of value-added taxes. So it is an instant credit. As soon as he either pays or gets invoiced for the service, he gets a credit automatically.

Mr. Minaker: So that helps him out on the wholesale end and then you guys get it from where he retails it?

Mr. Friedman: Yes.

Mr. Minaker: So he would get full credit on any purchase he had as well?

Mr. Friedman: A couple of the examples will highlight this.

Mr. Warner: On page 1-7, where you are showing the difference between exemptions and tax-free or zero-rated goods, you mentioned that tax-free, zero-rated, would be the proposed treatment of basic groceries.

Mr. Friedman: Yes.

Mr. Warner: We have gone through a little of this earlier, where Loblaws have various inputs into their costs, and included in that would be many items I would think Loblaws should pay tax on—such as their automobiles, their cash registers, their counters, things like that. You are saying that they would receive full credit for all tax on taxed input, so you are saying that Loblaws would receive a credit for the tax they have paid on their cars, on their counters, on their cash registers. I certainly did not interpret Mr. Wilson's statement as going that far.

[Translation]

Le détaillant pourrait être muni d'un numéro de vendeur ou d'un numéro de licence—un peu comme cela fonctionne à l'heure actuelle dans neuf des dix provinces qui perçoivent une taxe de vente provinciale. Le consommateur, de son côté, paierait la taxe, puisqu'il n'aurait pas d'attestation de vendeur—à moins qu'il ne soit assez finaud pour s'en procurer une en se disant que c'est un bon moyen d'éviter de payer la taxe. Mais cette pratique n'est évidemment pas légale.

Cette formule exige que le vendeur contrôle les attestations ou les numéros, tandis que dans un système de TVA, il fait sa vente et ne se préoccupe pas de savoir si l'acheteur est un détaillant ou un consommateur.

M. Wood: Autrement dit, dans un système de TVA, le détaillant n'a aucune vérification à faire; il perçoit la taxe sur tout ce qu'il vend, puisque, si son client est lui-même un vendeur, il obtiendra un crédit.

M. Minaker: Je comprends comment vous allez percevoir votre taxe, mais comment le détaillant ou le grossiste obtient-il son crédit en fonction de la taxe qu'il a payée sur les services qu'il a utilisés ou la publicité qu'il a faite?

M. Friedman: Sur les 10,000 dollars qu'il a payés pour faire sa publicité, il verse 8 p. 100 de taxe. Dès qu'il acquitte sa facture, il réduit d'une somme égale à la taxe qu'il a versée ses prochaines remises de taxe sur la valeur ajoutée. Il obtient donc un crédit immédiat. C'est la même chose pour un service qu'il a utilisé.

M. Minaker: Il est donc exonéré de la taxe en tant que grossiste, et vous vous reprenez à l'étape de la vente au détail?

M. Friedman: Oui.

M. Minaker: Il obtiendrait donc un crédit complet pour tous les achats qu'il aurait aussi faits?

M. Friedman: Un ou deux des exemples vont illustrer cela.

M. Warner: Au sujet de la page 1-7, où vous illustrez la différence entre les exonérations et les produits détaxés ou à taux de taxe équivalent à zéro, vous avez mentionné que la détaxe serait le traitement proposé pour les produits alimentaires de base.

M. Friedman: Oui.

M. Warner: Nous en avons déjà discuté un peu plus tôt, quand nous avons parlé des divers intrants de Loblaws dans ses prix de revient, ce qui comprendrait de nombreux produits sur lesquels Loblaws devrait payer de la taxe—comme ses automobiles, ses caisses enregistreuses, ses comptoirs, etc. Vous dites que Loblaws aurait droit à un crédit pour toutes les taxes qu'elle aurait payées sur les intrants, donc, pour la taxe qu'elle aurait payée sur ses automobiles, ses comptoirs et ses caisses enregistreuses. Je n'ai jamais cru que M. Wilson était allé si loin dans sa déclaration.

[Texte]

Mr. Friedman: Let us go back to page 1.1—

Mrs. Collins: Let us start all over again. We are slow learners here.

Mr. Friedman: No, this is what this is intended to be. It is time for compliments: you are probably, let us say—

Mr. Cassidy: He is most tactful.

Mr. Friedman: —among the top 20% of intelligent people in Canada, and if you cannot understand this then the general public certainly will not—and accountants and lawyers even worse.

What is a multi-stage sales tax? It is a tax on final domestic consumption of goods and services. Loblaws should not pay any tax. Loblaws is not a consumer. Loblaws passes on those costs. If they have cars or they have advertisements or they provide valet parking for their wealthier customers, then that will be built into the price of both the non-taxable food items and the taxable other items.

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Mr. Warner: But you are saying here that they are going to get full credit for all the tax they paid. I am suggesting that perhaps the Finance Minister would want them to pay tax on their cars and on their cash registers and on their advertising.

Mr. Layton: And to pass that on to the consumer.

The Chairman: And that is what happens right now. You see, what we really have promised the public is that groceries will remain in the same position as they are in right now vis-à-vis federal tax. Right now there is a federal tax in the tax Loblaws paid when they bought the counter and the cash register, and it somehow must be priced in the cost of oranges.

Mr. Friedman: Yes.

The Chairman: What you are saying is we are going to reduce the price of oranges even further, by giving them back all the tax they paid on these things. And that is not what was promised. What you are really trying to do is to make it even juicier than it presently is. Surely to goodness all we promised to the consumer was to put the consumer in exactly the same position as he is in right now.

Mr. Friedman: I am not trying to do anything. Let us go back to your example. If Loblaws does not get credit for all of these expensive items and Loblaws therefore has to pay 8% on advertising and whatever, Loblaws then turns around and builds that extra tax into the selling price, and that also gets taxed by 8%. Now you have duplicated the tax.

Mr. Warner: But the food is not going to be taxed.

[Traduction]

M. Friedman: Revenons à la page 1.1. . .

Mme Collins: Oui, reprenons depuis le début. Nous sommes plutôt lents.

M. Friedman: Non, c'est ce que nous avions prévu. C'est le temps des compliments: vous faites probablement partie, dirons-nous. . .

M. Cassidy: Quel tact?

M. Friedman: . . . des 20 p. 100 des personnes les plus intelligentes au Canada, et si vous ne comprenez pas, la population ne comprendra sûrement pas davantage—et encore moins les comptables et les avocats.

Qu'est-ce qu'une taxe de vente multi-stades? C'est une taxe sur les ventes finales de biens et services au consommateur. Loblaws ne devrait pas payer de taxe car elle n'est pas un consommateur. Elle transmet ses coûts vers l'aval. Si elle possède des véhicules, ou qu'elle fait de la réclame, ou qu'elle fournit des services de stationnement à ses riches clients, les coûts de ces éléments sont inclus dans les prix de ses produits alimentaires non taxables et de ses autres produits taxables.

M. Warner: Mais vous dites qu'elle obtiendra un crédit pour toutes les taxes qu'elle aura payées. J'ai l'impression que le ministre des Finances voudrait qu'elle paie une taxe sur ses véhicules, ses enregistreuses et sa publicité.

M. Layton: Et qu'elle la passe aux consommateurs.

Le président: C'est comme cela à l'heure actuelle. Ce que nous avons vraiment promis à la population, c'est que la taxe de vente fédérale ne changera pas la situation actuelle en ce qui a trait aux aliments. Loblaws a payé une taxe fédérale quand elle a acheté ses comptoirs et ses caisses enregistreuses, et cela doit se refléter d'une façon ou d'une autre dans le prix des oranges.

M. Friedman: Oui.

Le président: Ce que vous êtes en train de nous dire, c'est que nous allons réduire encore davantage le prix des oranges en remettant à Loblaws toutes les taxes qu'elle a versées à l'achat de ces articles. Et ce n'est pas cela que le gouvernement a promis. Vous essayez de rendre la chose encore plus intéressante qu'elle ne l'est à l'heure actuelle. Tout ce que nous avons promis aux consommateurs, c'est de ne rien changer à la situation actuelle.

M. Friedman: Ce n'est nullement mon intention. Reprenons votre exemple. Si Loblaws n'obtient pas de crédit en fonction de la taxe qu'elle a versée à l'achat de tous ces articles coûteux, et qu'elle doit par conséquent payer 8 p. 100 de taxe sur sa publicité, ou je ne sais trop, elle inclura cette taxe additionnelle à ses prix de vente au détail, qui sont déjà taxés à 8 p. 100. Le consommateur paiera donc deux fois la taxe.

M. Warner: Mais il n'y aura pas de taxe sur les aliments.

[Text]

Mr. Friedman: The food is not going to be taxed.

Mr. Warner: But they should pay tax on their cars and on their counters and on their cash registers.

Mr. Friedman: But they are paying tax on food and cars and counters to the extent that that is built into the selling price of taxable goods.

The Chairman: That is right. So what is wrong with that? Why did you interpret it such that the grocery store would be zero-rated? Why did you not interpret it such that the grocery store would be exempt?

Mr. Friedman: No, I did not interpret anything. What I interpreted was that grocery stores would sell some taxable goods and they would sell some tax-free goods.

The Chairman: No, no; exempt goods.

Mr. Friedman: Nobody has ever suggested grocery stores would be exempt.

The Chairman: That was my interpretation of what the Minister said: that we would exempt groceries.

Mr. Friedman: No, that is not what he said. I will read you what he said.

Mrs. Collins: And certainly not the grocery store.

The Chairman: No, groceries would be exempt from federal sales tax.

Mr. Layton: That all goods sold to all consumers from a grocery store would not carry any tax.

The Chairman: That is not what he said.

Some hon. members: No, no.

The Chairman: He said basic groceries would be exempt from tax.

Mr. Friedman: I read to you excerpts from the speech delivered in the House of Commons by the Hon. Michael Wilson, Minister of Finance, on December 16, 1987:

Last week, after meeting with my provincial colleagues, I announced that we had agreed that work on the national sales tax should continue, based on the following considerations: municipalities, hospitals, school boards, colleges, and universities should not bear a greater tax burden under a national sales tax than they would under the existing sales tax regimes. . . and basic groceries, prescription drugs, and certain medical devices should not be subject to tax.

The Chairman: That is right—exempt.

Mr. Friedman: No. Sir, I will read it to you again: "basic groceries, prescription drugs, and certain medical devices should not be subject to tax".

The Chairman: That is right, they should be exempt from tax.

[Translation]

M. Friedman: Non, vous avez raison.

M. Warner: Mais Loblaws devrait payer une taxe sur ses véhicules, ses comptoirs et ses caisses enregistreuses.

M. Friedman: Mais c'est le cas, puisque la taxe fait déjà partie du prix de vente des biens taxables.

Le président: C'est juste. Qui a-t-il de mal à cela, alors? Pourquoi dites-vous que les produits du magasin d'alimentation seront détaxés plutôt qu'exemptés?

M. Friedman: Non, je n'ai fait aucune interprétation de ce genre. J'ai dit que les magasins d'alimentation vendraient certains produits taxables et d'autres produits qui seraient détaxés.

Le président: Non, non; vous avez dit «exonéré».

M. Friedman: Non, personne n'a jamais dit que les magasins d'alimentation seraient exonérés.

Le président: C'est comme cela que j'ai compris ce qu'a dit le ministre: que les aliments seraient exonérés.

M. Friedman: Non, ce n'est pas ce qu'il a dit. Je vais vous lire sa déclaration à ce sujet.

Mme Collins: Et cela ne s'applique sûrement pas aux magasins d'alimentation.

Le président: Non, ce sont les aliments qui seraient exonérés de la taxe de vente fédérale.

M. Layton: Aucun produit vendu aux consommateurs dans un magasin d'alimentation ne serait taxé.

Le président: Ce n'est pas ce qu'il a dit.

Des voix: Non, non.

Le président: Il a dit que les produits d'épicerie essentiels ne seraient pas taxés.

M. Friedman: Voici un extrait de ce qu'a dit l'honorable Michael Wilson, ministre des Finances, à la Chambre des communes, le 16 décembre 1987:

La semaine dernière, après avoir rencontré mes collègues des provinces, j'ai annoncé que nous avions convenu de poursuivre les travaux sur une taxe de vente nationale fondée sur les paramètres suivants: les municipalités, les hôpitaux, les conseils scolaires, les collèges et les universités ne devraient pas supporter un fardeau fiscal plus élevé avec une taxe de vente nationale que dans le cadre du régime actuel; les produits d'épicerie essentiels, les médicaments sur ordonnance et certains appareils médicaux ne devraient pas être taxés.

Le président: Voilà—exonérés.

M. Friedman: Non. Je répète: «... les produits d'épicerie essentiels, les médicaments sur ordonnance et certains appareils médicaux ne devraient pas être taxés».

Le président: Oui, ils devraient être exonérés de taxe.

[Texte]

Mr. Friedman: No, I read into that, and informally I get concurrence from Department of Finance representatives, that what they mean by that is that basic grocery items will be tax-free. There is no point in exempting them.

The Chairman: Why not?

Mr. Warner: But we can still tax them on their cash registers and on their cars and their advertising.

Mr. Friedman: But you are taxing them on that, because those components are built into the selling price of the goods.

Mr. Warner: But you are saying here in the definition of "tax free" or "zero-rated" they get full credit on all tax and tax inputs.

Mr. Friedman: Yes, that is right. That is the only way—

Mr. Warner: So they are going to get credit for the tax they paid on their counters and on their cars.

Mr. Friedman: To restore them back to an amount they used to pay before the tax was added to them. They are going to add the tax onto the selling price of all taxable goods—

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The Chairman: Andy, why would you not take a look at page 1-7 where on an exemption you have no tax on a sale, you get no credit on your purchases. But if your purchases happen to be tax-free purchases, then of course there is no tax on them anyway. Now, supposing we zero-rated farmers and we exempted grocers on groceries, would we not wind up with...? If the grocery store then bought a bushel of apples from a farmer, it would bear no tax and the grocery store of course would get no credit on its purchases, but it would have paid no tax and it would not charge tax on its sale of that bushel of apples so there would be no tax on the sale.

On the other hand, if the grocery store bought cornflakes it may have to pay tax on the cornflakes. It would not charge any tax on its value added.

Mr. Friedman: If life were that simple, sir, then I would agree with you. But unfortunately, as the honourable gentleman on my right says, what do you do with the middleman, the wholesaler at the Ontario food terminal who has trucks, who has desks, who has packaging materials? And if you are only going to exempt the food, then all you are doing is giving the consumer the break for the 1%, 2%, or 3% margin that the supermarket adds on. Everything else will be taxed.

Mr. Cassidy: No, I do not believe so.

Mr. Friedman: Why?

[Traduction]

M. Friedman: Non, les représentants du ministère des Finances semblent d'accord avec moi: cela veut dire que les produits d'épicerie essentiels seront détaxés. Il n'y a pas lieu de les exonérer.

Le président: Et pourquoi pas?

M. Warner: Mais nous pouvons toujours imposer une taxe sur les caisses enregistreuses, les véhicules et la publicité.

M. Friedman: Mais c'est déjà le cas, puisque ces éléments font déjà partie du prix de vente des produits.

M. Warner: Mais vous dites ici, dans la définition de «fournitures détaxées» ou «taux de taxe de zéro», qu'un crédit de taxe intégral est accordé sur toutes les taxes et sur tous les intrants taxés.

M. Friedman: Oui, vous avez raison. C'est le seul moyen de... .

M. Warner: Loblaws va donc obtenir un crédit pour la taxe qu'elle a payée à l'achat de ses comptoirs et de ses véhicules.

M. Friedman: Oui, pour la ramener à la même situation qu'auparavant, avant que la taxe ne soit ajoutée. Et elle ajoutera la taxe au prix de vente de tous ses produits taxables... .

Le président: Andy, vous devriez jeter un coup d'oeil à la page 1-7, à la rubrique «exonération», où l'on dit que, lorsqu'il n'y a pas de taxe sur une vente, aucun crédit n'est accordé sur les achats. Mais s'il s'agit d'achats qui sont détaxés, il n'y a évidemment alors aucune taxe de toute façon. Supposons que l'on détaxe les produits agricoles et que les produits d'épicerie soient exonérés; ne nous retrouverions-nous pas dans une situation où...? L'épicerie qui achèterait un boisseau de pommes ne paierait pas de taxe et n'obtiendrait évidemment pas de crédit sur ses achats, mais n'ayant pas payé de taxe, elle n'en percevrait donc pas à la vente de son boisseau de pommes. Il n'y aurait donc pas de taxe sur la vente.

Par contre, si elle achetait des flocons de maïs, elle devrait peut-être payer une taxe. Elle n'en percevrait toutefois pas sur la valeur ajoutée.

M. Friedman: Si les choses étaient si simples, monsieur, je serais d'accord avec vous. Mais, malheureusement, comme le dit monsieur, ici, à ma droite, que fait-on des intermédiaires, du grossiste, en Ontario, avec tous ses camions, son matériel de bureau et ses fournitures d'emballage? Et se contenter d'exonérer les aliments ne permet aux consommateurs que d'économiser les 1 p. 100, 2 p. 100 ou 3 p. 100 qu'ajoute le supermarché aux prix des aliments. Tous les autres produits seront taxés.

M. Cassidy: Non, je ne crois pas.

M. Friedman: Et pourquoi?

[Text]

Mr. Cassidy: I wish on the one hand though, in terms of the... The decision in terms of the political choice of alternatives, I think, relates to the Department of Finance and also to some extent to this committee. So I do not think it is helpful for you to say you have opted for this way and that is the only way. I do not believe that is your role in terms of—

Mr. Friedman: No, and I agree with you.

Mr. Cassidy: Okay. And I think that... I just came in this morning, but very quickly there was identified that question about to what extent do you root around in order to ensure that absolutely every input into the food chain is in fact... the tax there is captured and repaid in order to prevent it from being borne on the food. You have indicated that where the food is consumed in a restaurant the bearer of that should probably be treated as a purchaser of a non-food item or of a non-food item and service. There are obviously boundary problems between let us say a take-out pizza from Pizza, Pizza, and a frozen pizza from Loblaw's. The two are in fact almost interchangeable given microwave ovens and that kind of thing, and that can in fact create some interesting and difficult boundary problems that we will learn about later.

However, I think we just have to look at the question. If food were exempt, then the greater degree of processing in the food, the more there would be a taxed input into the food which would be reflected in the final price. And the more the food was natural and came straight from the farmer, the less there would be of tax inputs in the final price. Is that a correct assumption?

Mr. Friedman: You are missing one point to the extent that the... You are indicating a bias toward the supermarket buying directly from the farmer. I mean, if a farmer could handle purchases by Loblaw's, but there may be one, two or three middlemen in the chain and you are suggesting that if the supermarket buys directly from the farmer then sales should be exempt. But to the extent that a middleman adds value, not by processing but just by holding onto it and distributing it to a smaller store—

Mr. Cassidy: I do not believe that is the case because if the middleman, for example, were selling cabbages by the case, say, because it is a food item it would not be taxed. There would be no tax paid by the purchaser on that particular purchase. Therefore, if Loblaw's bought its cabbages from a wholesaler who assembled the cabbages up in the Bradford area, the ultimate effect in tax terms would be no different from Loblaw's having an agent out there who was assembling those on behalf of the supermarket company.

[Translation]

M. Cassidy: Selon moi, c'est au ministère des Finances qu'appartient la décision sur le plan politique, et aussi, dans une certaine mesure, au présent Comité. Je ne crois donc pas qu'il soit utile de dire que vous avez opté pour cette formule et que c'est la seule qui existe. Je ne crois pas que ce soit tellement votre rôle de...

M. Friedman: Non, et je suis d'accord avec vous.

M. Cassidy: Très bien. Je viens tout juste d'arriver, ce matin, mais très rapidement, il y a eu une question à propos du degré d'exhaustivité qu'il faut chercher à atteindre afin de veiller à ce que absolument aucun intrant de la chaîne... on prélève la taxe, que l'on rembourse ensuite pour éviter qu'elle soit appliquée aux aliments. Vous avez dit que les aliments qui sont consommés dans un restaurant devraient probablement être considérés comme des produits non alimentaires ou comme des services. Il y a évidemment des cas limites entre une pizza de chez «Pizza, Pizza», dirons-nous et une pizza congelée que l'on peut acheter chez Loblaw's. Ces deux genres de pizza sont en réalité presque interchangeables, avec les fours micro-ondes que l'on peut utiliser aujourd'hui, et cela peut en fait amener des difficultés fort intéressantes dont nous entendrons parler plus tard.

Mais je pense que nous devons toutefois nous pencher sur la question. Si les aliments étaient exonérés de taxe, plus il y aurait d'étapes dans leur traitement, et plus il y aurait d'intrants taxés qui se reflèteraient dans le prix final. Et plus l'aliment serait naturel et moins il y aurait d'étapes, moins il y aurait d'intrants taxés qui se reflèteraient dans son prix final. Mon hypothèse est-elle juste?

M. Friedman: Oui, mais vous négligez un élément... Vous parlez d'un supermarché qui achèterait ses produits directement chez l'agriculteur. Si c'était le cas, vous auriez raison, mais entre Loblaw's et l'agriculteur, il y a peut-être un, deux ou trois intermédiaires dans la chaîne, et vous dites que, puisque le supermarché achète directement ses produits chez l'agriculteur, les ventes devraient être exonérées de taxe. Mais l'intermédiaire ajoute de la valeur aux produits, pas tellement en lui faisant subir un traitement, mais tout simplement de par le fait qu'il en assure la distribution aux détaillants...

M. Cassidy: Je ne pense pas que ce soit le cas puisque, si l'intermédiaire, par exemple, vendait des choux à la caisse, dirons-nous, il n'y aurait pas de taxe, puisque c'est un produit alimentaire. L'acheteur ne paierait pas de taxe sur cet achat. Par conséquent, si Loblaw's achetait ses choux chez un grossiste de la région de Bradford, du point de vue de la taxe, la situation serait la même que si Loblaw's avait un agent dans cette région qui achèterait des choux pour tous les magasins Loblaw's.

[Texte]

[Traduction]

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Mr. Friedman: Could the middleman then buy a forklift truck tax-free, or the packaging materials tax-free?

Mr. Cassidy: Nò.

Mr. Friedman: Why not? Why could the farmer buy those forklifts—

The Chairman: Because he would be treated as exempt.

Mr. Cassidy: No, the middleman could not. This is the question I am asking, whether—

Mr. Friedman: I am saying that you are already creating inequalities, and what you are suggesting is that instead of having middlemen we should have farmers who do all the processing themselves because everything to them will be tax-free.

Mr. Cassidy: I am sure we will be struggling with this problem for the next two or three months.

Mr. Friedman: Oh, yes.

Mr. Cassidy: What about the farmers out in the area around Portland, where I spend a bit of time? Like most farmers outside of the really rich agricultural areas of the country, they do a bit of everything in order to survive. They do a bit of road work, a bit of contracting, a bit of ploughing. They sell some firewood; they do building for local cottagers, when they are building new cottages, and a bit of repair work. They open up the cottages and they paint some boats and that kind of thing, and along the way they also raise some cows. Some of them are crunchy granola farmers who maybe make sandals or musical instruments and that kind of thing. Now, how do you disentangle all of those activities in an enterprise in which 45% or 50% of the output of it is food?

Let us say that the farmer down my way builds a new barn. That barn will contain some equipment to work the fields and some equipment which not only works the fields but also is used to plough roads and dig septic tanks. What happens there?

Mr. Friedman: We will have a whole session on farming this afternoon.

You said that I say that restaurants should be taxed or should not be taxed. What I say is what is in that booklet. I really do not have a view. All I can tell you is that the government has proposed this system. You have indicated it is unclear what they intend on doing to basic groceries. All we can say is what we have informally heard, what would make logical sense, and what in effect the European countries do when they treat basic groceries.

Mr. Cassidy: There is certainly agreement I think that, when you go to Loblaws and you buy a bunch of food, the

M. Friedman: L'intermédiaire pourrait-il acheter un chariot élévateur détaxé ou encore des matériaux d'emballage détaxés?

M. Cassidy: Non.

M. Friedman: Pourquoi pas? L'agriculteur ne pourrait-il pas acheter ces chariots élévateurs. . .

Le président: Parce qu'il serait exonéré de taxe.

M. Cassidy: Non, l'intermédiaire ne pourrait pas. C'est la question que je me pose, si. . .

M. Friedman: Vous créez déjà des inégalités, et ce que vous proposez, c'est de nous débarrasser des intermédiaires et de demander aux agriculteurs d'assurer eux-mêmes toute la transformation parce que tous leurs achats seront détaxés.

M. Cassidy: Je suis convaincu que nous serons aux prises avec ce problème au cours des deux ou trois prochains mois.

M. Friedman: Sans doute.

M. Cassidy: Qu'en est-il des agriculteurs de la région de Portland, où je séjourne de temps en temps? Tout comme la plupart des agriculteurs qui ne se trouvent pas dans les régions agricoles très prospères du pays, ces gens-là exercent 36 métiers pour survivre. Ils font quelques travaux de voirie, de construction, de déneigement. Ils vendent du bois de chauffage; ils effectuent des travaux de construction pour les propriétaires de chalets des environs quand ces derniers construisent leurs chalets ou les font réparer. Ils préparent les chalets au début de la saison et ils peignent des bateaux par exemple, en plus d'élever quelques vaches. Certains d'entre eux sont des agriculteurs «granola» qui fabriquent peut-être des sandales ou des instruments de musique. Comment démêler toutes ces activités dans une entreprise dont 45 ou 50 p. 100 de la production est de nature alimentaire?

Supposons que l'agriculteur au bout du rang se construise une nouvelle grange. Ce bâtiment abritera du matériel employé pour cultiver la terre mais également du matériel qui sert non seulement à cultiver la terre mais aussi à déneiger les routes et à creuser des fosses septiques. Qu'est-ce qui arrive dans ces cas-là?

M. Friedman: Nous aurons toute une séance sur l'agriculture cet après-midi.

Vous soutenez que j'affirme que les restaurants devraient être taxés ou non taxés. Ce que j'affirme se trouve dans cette brochure. Je n'ai pas vraiment d'opinion. Tout ce que je peux vous dire, c'est que le gouvernement a proposé ce régime. Vous avez indiqué que les intentions ne sont pas claires en ce qui concerne les aliments de base. Nous nous contentons de rapporter ce que nous avons entendu officiellement, ce qui semble logique et ce que font les pays européens à propos des aliments de base.

M. Cassidy: Nous sommes sans doute tous d'accord pour affirmer que le consommateur qui se rend chez

[Text]

consumer is not going to see 8% or 10% added on to the price of that purchase. I think there is no question about that in anybody's mind here. I think we all understood that when we said food should not be taxed, whether you buy it from a small market or from an outdoor farmers' market or whatever.

I think you were indicating as I came in that you can then have a problem of so much tax money coming back to the various levels of production and distribution of the food that you get into problems of that going far beyond the basic food.

Mr. Friedman: I guess what I am trying to correct is that you are not getting anything back. You are not getting an advantage. You are getting restored to the position you were in before VAT was added on to the purchases. So if the middleman buys a forklift truck for \$10,000, the forklift truck would now cost \$10,800 with VAT. As soon as he files a claim he restores himself back to \$10,000.

I agree with you. If you zero-rate food, the government says it is going to cost you 1% to 2%, somewhere in there.

The Chairman: You have all these other inputs, which you presently get less than tax on. You are not going to collect tax.

Mr. Friedman: No. Under a VAT system you would always get a credit for purchases and the only taxes you are losing are taxes at the consumer level.

• 1035

The Chairman: But at the present time, under our current sales tax regimes, we are getting taxed on the inputs—the trucks, the gasoline, the store fixtures, you name it—that go into the process, and to lose the tax revenue on that would very much alter the situation. In other words, we would not only exempt groceries but we would in fact make groceries substantially cheaper, and I do not think there was any intention to cut the revenue back that much.

Mr. Friedman: The 8% rate assumed that you would tax everything and allow for credits right through the stream and that would replace the current tax. Now, if you all of a sudden make basic groceries tax free, as I understand it, the rate would move up 1% to 2%.

The Chairman: But if you made them exempt, what would happen?

Mr. Friedman: If you made them exempt, all you would do is eliminate that tax which would have been computed on the mark-up of the retailer.

The Chairman: Precisely.

Mr. Friedman: And what you are doing then is you are favouring those retailers who make as much money in the retail environment as possible. It would make sense then for Loblaw's to run its own farms, because they would not

[Translation]

Loblaw's et remplit son panier à provisions ne verra pas une taxe de 8 ou de 10 p. 100 s'ajouter au prix de ses achats. Il me semble que nous sommes tous d'accord là-dessus. Nous l'avons tous compris quand nous avons déclaré que les aliments ne devraient pas être taxés, qu'ils soient achetés dans un petit marché, dans un marché en plein air ou ailleurs.

Si je ne m'abuse, vous indiquiez, quand je suis entré, qu'un problème pourrait surgir du fait qu'il y aurait tant de taxes remboursées aux divers niveaux de production et de distribution des aliments que la portée pourrait aller bien au-delà des aliments de base.

M. Friedman: Ce que j'essaie de démontrer, c'est que nous n'obtenons rien en retour. Il n'y a aucun avantage. Nous nous retrouvons au même point qu'avant que la TVA s'ajoute aux achats. Ainsi, si l'intermédiaire achète un chariot élévateur pour 10,000\$, ce dernier lui coûtera 10,800\$ TVA incluse. Dès qu'il demande un remboursement, le prix d'achat redevient 10,000\$.

Je suis d'accord avec vous. Pour que le taux de taxe soit nul sur les aliments, le gouvernement déclare qu'il en coûte 1 à 2 p. 100 environ.

Le président: Il y a tous les autres intrants, pour lesquels les recettes fiscales sont négatives actuellement. Il n'y aura pas de taxe perçue.

M. Friedman: Non. Dans un régime de TVA, on obtient toujours un crédit pour les achats et des taxes ne sont perçues qu'au niveau de la consommation.

Le président: Mais à l'heure actuelle, en vertu de nos régimes de taxe de vente, les intrants sont taxés—les camions, l'essence, le mobilier de magasin, et quoi encore—et perdre les recettes fiscales sur ces produits modifierait considérablement la situation. Autrement dit, nous ne nous contenterions pas d'exonérer l'épicerie, nous la rendrions beaucoup moins chère et je ne crois pas que l'intention était de réduire les recettes à ce point.

M. Friedman: Le taux de 8 p. 100 suppose que tout est taxé, qu'il existe des crédits à toutes les étapes et que ce mécanisme remplace la taxe actuelle. Si, tout à coup, on abolit la taxe sur les aliments de base, le taux augmente de 1 à 2 p. 100, si j'ai bien compris.

Le président: Mais si les aliments sont exonérés, que se passe-t-il?

M. Friedman: S'ils sont exonérés, tout ce qu'on fait, c'est éliminer la taxe qui aurait été calculée sur la majoration de prix du détaillant.

Le président: Exactement.

M. Friedman: Et ce que l'on fait dans ce cas, c'est favoriser les détaillants qui font autant d'argent que possible sur le marché de détail. Loblaw's aurait donc intérêt à avoir ses propres exploitations agricoles, parce

[Texte]

be taxed on any of that component. If Loblaws grew potatoes or tomatoes, took them by truck to its own supermarkets, sold them through the supermarkets, it would pay no tax whatsoever.

Mr. Weyman: If rather than making food products tax free at the retail level—they are exempt, which is, I think, what the suggestion has been—what would happen to the price of food then? It would seem to me that compared to the situation today where only some of the items in the supermarket have borne a federal sales tax, under the new system, given that the food products are exempt, the tax content of the food product would be much greater than it is now, because the tax costs on all the items we have been discussing that Mr. Warner has suggested Loblaws should pay tax on—the advertising, the wrapping material, the fuel supplies, the fork-lift truck, the automobile, and all these other items—would be included in the price of the food. Would that not make food more expensive than it would otherwise be if it were tax free?

The Chairman: It depends whether you have made the farmers zero-rated or not.

Mr. Weyman: It is not a case of the farmer, it is a case of the automobile manufacturer selling to Loblaws an automobile on which they have to pay the full tax. It increases their cost and will increase the price of the food.

Mr. Friedman: I would agree with you. I am a modest accountant, so let me ask Lorey Hoffman, our resident economist, to answer that.

Mr. Lorey A. Hoffman (Individual Presentation): Andy has hit the nail on the head here. Although the committee understood that basic groceries would not bear an effective tax rate equal, say, to the statutory tax rate of 8%, it would bear something lower than that, and that lower number would presumably be the effective tax rate already borne in the context of the federal sales tax on purchases. If that is the objective the committee wants—that is to say we are getting x number of dollars from the sector now—one has to recognize that you would potentially be introducing a significant non-neutrality in the production and sale of foodstuffs, and I think we can predict that the committee will hear some very vociferous arguments against this treatment from various sectors in the food industry.

The Chairman: Like who?

Mr. Hoffman: Those middlemen you wish to exempt. As Andy has pointed out, what you are giving Loblaws is an incentive to restructure its affairs because there will be an effective tax rate on foodstuffs. If you are not going to give credit to that businessman in the middle of the chain, then he is going to pass the tax on in higher selling prices.

Mr. Minaker: I would like to go through the food chain, if I could, starting with the farmer and going through a food broker. A food broker who sells maybe wine, fresh corn, cornflakes, and so on, can the food

[Traduction]

que cette entreprise éviterait ainsi les taxes sur chacun des intrants. Si Loblaws cultivait des pommes de terre ou des tomates, les transportait en camion dans ses supermarchés et les y vendait, elle ne paierait aucune taxe.

M. Weyman: Si, au lieu de détaxer les aliments au niveau de détail, on les exonère—ce qui semble avoir été la proposition avancée—qu'arriverait-il au prix des aliments? Il me semble que, par rapport à la situation actuelle, où seulement quelques-uns des articles vendus dans les supermarchés sont assujettis à une taxe fédérale, dans le nouveau régime, compte tenu du fait que les produits alimentaires seraient exonérés, la part de la taxe dans le prix des produits alimentaires serait beaucoup plus élevée qu'elle ne l'est actuellement, parce que les taxes sur tous les éléments dont nous avons discuté et sur lesquels, selon M. Warner, Loblaws devrait payer des taxes—la publicité, les emballages, le carburant, le chariot élévateur, l'automobile, et tout le reste—seront comprises dans le prix des aliments. Cela ne rendra-t-il pas les aliments plus chers que s'ils étaient détaxés?

Le président: Tout dépend si le taux de taxe des agriculteurs est nul ou non.

M. Weyman: Ça n'a rien à voir avec l'agriculteur, mais plutôt avec le fabricant d'automobiles qui vend à Loblaws une automobile sur laquelle il faut payer toute la taxe. Cette taxe majore les coûts et donc le prix des aliments.

M. Friedman: Je suis d'accord. Comme je ne suis qu'un modeste comptable, je demanderais à Lorey Hoffman, notre économiste attitré de répondre à cette question.

M. Lorey A. Hoffman (à titre personnel): Andy vient de mettre le doigt sur le bobo. Même si le Comité a compris que les aliments de base ne seraient pas assujettis à un taux de taxe effectif égal au taux réglementaire de 8 p. 100, par exemple, ils seraient tout de même assujettis à un taux de base un peu inférieur, qui correspondrait probablement au taux de base effectif s'appliquant déjà dans le contexte de la taxe fédérale sur les achats. Si c'est ce que souhaite le Comité—autrement dit tirer un montant x de ce secteur—il faut reconnaître que la neutralité risquerait de disparaître en ce qui concerne la production et la vente des aliments, et il est à prévoir que le Comité entendrait les hauts cris de diverses branches du secteur des aliments opposés à ce traitement.

Le président: De la part de qui, par exemple?

M. Hoffman: Les intermédiaires que vous voulez exonérer. Comme l'a souligné Andy, vous incitez Loblaws à restructurer ses opérations parce qu'il y a un taux de taxe effectif sur les aliments. Si l'entrepreneur qui se trouve au milieu de la chaîne n'a pas droit à un crédit, il transmettra la taxe en aval en augmentant ses prix de vente.

M. Minaker: J'aimerais si possible définir la chaîne alimentaire, en partant de l'agriculteur et en passant par un négociant, qui vend peut-être du vin, du maïs, des céréales et ainsi de suite. Ce négociant peut-il se faire

[Text]

broker charge all the taxes on cars, desks and rent, and so on? Does he put the amount of taxes he has paid for those items into a tax pool?

Mr. Friedman: He gets that money back.

• 1040

Mr. Minaker: No, just a minute. He puts that into a pool that says he paid so many dollars in tax. Then if the farmer sells him the fresh corn, the farmer has to charge him tax on the corn. Is that correct?

Mr. Friedman: Yes, sir. It is not clear whether... Either he is going to charge tax, in which case—

Mr. Minaker: So he issues an invoice, and then he puts tax onto that, whatever it is, and then that goes into the tax pool for the food broker.

Mr. Friedman: Yes.

Mr. Minaker: The food broker puts the taxes in for his automobiles and everything.

Mr. Friedman: Yes.

Mr. Minaker: Then if he turns around and sells to Loblaws, which retails it out, he has in his overhead the cost of those items, and he then charges Loblaws tax on the whole amount. Then, similarly, if he sells wine to the liquor store, he charges them a tax.

Mr. Friedman: Exactly.

Mr. Minaker: Then the food brokers get credit back on those taxes they charge.

Mr. Friedman: Yes.

Mr. Minaker: So they look at the pool and see whether they owe you any money.

Mr. Friedman: Yes.

Mr. Minaker: After how long?

Mr. Friedman: Well, we are going into reporting monthly and so on in some cases.

Mr. Minaker: Monthly or whatever. So if Loblaws have paid for their automobiles and trucks, and they pay for their desks and they pay for the other things, and they pay tax on it, then they have a tax pool set up as well. They will get credit for all that, I would presume.

Mr. Friedman: Exactly, yes.

Mr. Minaker: Then wherever they sell and charge a tax, you will bill them on that.

Mr. Friedman: Exactly.

Mr. Minaker: That is the chain all the way through.

Mr. Friedman: That is the chain.

Mr. Minaker: Then if somebody uses their car on their own at night, we will be taxing them on the income side as a taxable benefit.

[Translation]

rembourser les taxes sur les automobiles, les bureaux, le loyer et ainsi de suite? Le montant des taxes qu'il a payées est-il imputé à un compte de taxe?

M. Friedman: Il se fait rembourser ce montant.

M. Minaker: Un instant. Ces taxes sont imputées à un compte qui indique qu'il a versé X dollars en taxes. Si l'agriculteur lui vend du maïs, il doit percevoir la taxe sur le maïs. Est-ce exact?

M. Friedman: Oui, monsieur. Il n'est pas clair que... Ou bien il perçoit la taxe, auquel cas...

M. Minaker: Il prépare donc une facture et y ajoute la taxe, qui est imputée au compte de taxe du négociant?

M. Friedman: oui.

M. Minaker: Le négociant fait de même pour la taxe sur l'automobile et pour tout le reste.

M. Friedman: Oui.

M. Minaker: S'il vend le maïs à Loblaws, qui le vend au détail, il compte dans ses frais généraux le coût de ces marchandises et exige de Loblaws la taxe sur le montant total. De même, s'il vend du vin à la Société des alcools, il perçoit la taxe sur ses ventes.

M. Friedman: Exactement.

M. Minaker: Puis, le négociant reçoit un crédit pour la taxe qu'il a perçue.

M. Friedman: Oui.

M. Minaker: Il examine donc le compte de taxe et détermine s'il dit quoi que ce soit.

M. Friedman: Oui.

M. Minaker: Après combien de temps?

M. Friedman: Dans certains cas, les rapports seront mensuels.

M. Minaker: Tous les mois ou à une autre fréquence. Donc, si Loblaws a acheté des automobiles et des camions, des bureaux et d'autres marchandises et a payé une taxe sur ces marchandises, elle a un compte de taxe elle aussi et obtiendrait un remboursement intégral je suppose.

M. Friedman: Exactement.

M. Minaker: Alors peu importe l'étape où se situe la vente, il y a toujours une taxe.

M. Friedman: Exactement.

M. Minaker: Voilà la chaîne d'un bout à l'autre.

M. Friedman: Voilà la chaîne.

M. Minaker: Si quelqu'un se sert de son automobile à des fins personnelles le soir, nous percevons un impôt sur le revenu au titre d'avantage social imposable.

[Texte]

Mr. Friedman: That is an income tax.

Mr. Minaker: I presume it would pick up any misuse of tax-free items in that way.

Mr. Wood: And there is a partial denial of credit for sales tax to the extent of his personal use of the car. So he would not get the full credit in that pool. He might get 80% of it.

Mr. Minaker: Say they buy leasehold improvements when they lease the store and they include a cash register and everything. How does the supplier of that whole package over a 10-year or 20-year lease get back the sales tax on those items?

Mr. Friedman: The same thing happens. When he buys the cash register he gets a credit.

Mr. Minaker: Even though it might be over a 10-year—

Mr. Friedman: It is cash-basis accounting. In effect, all we are doing is the supplier taxes the cash register, remits it, and the customer gets restored back to pre-VAT days. He gets an instant credit for the cash register.

Mr. Minaker: The developer would get an instant credit once the store was opened. So presumably if there were a rent in the overhead costs for that store, it would go into the cost of goods. Then you are going to tax on the leasehold, so he will get a credit on that.

Mr. Friedman: Yes.

Mr. Minaker: I can see encouragement at the farm level for a new economy. Every time they issue a bill they are going to have to collect the tax and they are going to have to remit it to you people.

Mr. Friedman: We will be talking about farmers. But if the farmer only sells to a business, there is no incentive for him not to charge the tax, because the business is going to get a credit for that tax anyway.

Mr. Minaker: But I am saying if he decides to go out and plough your road in the middle of winter and you give him \$20, rather than fooling around with the taxes and so on—

Mr. Friedman: It probably happens now. It is just going to happen that there is an extra incentive.

Mr. Minaker: There will be more of an underground economy.

Mr. Friedman: And we will talk about the underground—

Mrs. Collins: I thought one of the whole purposes of this was to get at the underground economy.

Mr. Friedman: No, I do not think so. I think the indication is that in some of the VAT countries tax

[Traduction]

M. Friedman: Il s'agit d'un impôt sur le revenu.

M. Minaker: Je présume qu'on pourrait déceler ainsi tout abus relatif aux marchandises détaxées.

M. Wood: Et le crédit de taxe de vente est réduit en proportion de l'utilisation personnelle du véhicule. Le contribuable n'aurait donc pas un crédit complet. Il recevrait peut-être 80 p. 100 du crédit.

M. Minaker: Supposons qu'il fasse des améliorations locatives au moment de la location du magasin et ajoute une caisse enregistreuse, par exemple. Comment le fournisseur, lié par un bail de 10 ou 20 ans, se fait-il rembourser la taxe de vente sur ces marchandises.

M. Friedman: Il fait comme les autres. Il obtient un crédit quand il achète la caisse enregistreuse.

M. Minaker: Même avec un bail de 10 ans?

M. Friedman: Les opérations sont comptabilisées selon la comptabilité de caisse. En réalité, c'est simple. Le fournisseur perçoit la taxe sur la caisse enregistreuse, la remet et le client se retrouve dans la même situation qu'avant l'instauration de la TVA. Il obtient un crédit instantané pour la caisse enregistreuse.

M. Minaker: L'entrepreneur obtiendrait un crédit instantané au moment de l'ouverture du magasin. On peut présumer que, si les frais généraux comprennent un loyer, ils seraient compris dans les coûts des marchandises. Puis, il y a une taxe sur le loyer, pour laquelle un crédit est accordé.

M. Friedman: C'est exact.

M. Minaker: Je vois qu'on incite le secteur agricole à entrer dans une nouvelle économie. Chaque fois qu'un agriculteur fera une facture, il devra percevoir la taxe et la remettre à vous, messieurs.

M. Friedman: Nous parlerons des agriculteurs plus tard. Mais si l'agriculteur ne vend ses produits qu'à des entreprises, il n'a pas intérêt à ne pas percevoir la taxe parce que les entreprises recevront un crédit de taxe de toutes façons.

M. Minaker: Mais s'il décide de déneiger votre entrée en plein hiver et que vous lui donniez 20\$ pour sa peine, au lieu de se casser la tête avec les taxes et tout le reste. . .

M. Friedman: C'est probablement ce qui se produit maintenant. Il y aura tout simplement un encouragement supplémentaire.

M. Minaker: L'économie souterraine sera plus forte.

M. Friedman: Et nous en parlerons. . .

Mme Collins: Je pensais que l'un des objectifs était de s'attaquer à l'économie souterraine.

M. Friedman: Je ne crois pas. Selon les indications, l'évitement fiscal est assez prononcé dans certains pays où

[Text]

avoidance is fairly high. Italy, it seems to me, is one of the countries where they have a big problem with the underground economy.

Mr. Hoffman: That is the one distortion left in any pure VAT system. We have this theory that says there is something called "households" and another thing called "producers". You tax producers through this mechanism. The tax is also being borne by households. But if households themselves do production and they are not taxed, which would be the case, then you clearly have an incentive to produce at home, or through any non-tax chain. I do not know of any statistics on this, but some people believe when VATs were introduced in Europe, the underground economy in fact grew in size as a result.

• 1045

Mr. Minaker: How do you handle the farmer's market down here in—

Mr. Warner: I would like a clarification. I am trying to find the advantages or disadvantages in Loblaws and Home Hardware selling scrub brushes. Loblaws are selling more and more taxable items now and are deriving more and more of their profit from taxable items. Home Hardware supposedly has a section that really competes with Loblaws, with brushes and other items. The selling prices will be the same, I suppose—for instance, a \$1 scrub brush, and there will 8¢ tax on it. The only advantage Loblaws would have is the cashflow earlier. They would not have money out in taxes in the same way Home Hardware would.

Mr. Friedman: Both would get a credit on their purchases. I would suggest that on a quarterly remittance Home Hardware may have an advantage, because they will sell more taxable goods and they will hold the customers' money. If it is a quarterly remittance, they may on average hold the customers' money for a month and a half, whereas if most of Loblaws' sales are tax-free they will not have any taxes to hold.

Mr. Warner: But on the volume of scrub brushes, they are going to hold the customers' money for the same amount of time.

Mr. Friedman: Yes, but we are going to get into reporting requirements. Loblaws will have to report once a month, whereby the smaller Home Hardware store will report once a quarter.

Mr. Warner: So that would be an advantage.

Mr. Friedman: So that may adjust that. But there is no reason, with electronic funds transfer, that the government might not suggest weekly or almost instant remittances. I cannot verify this, but somebody suggested that in the U.K. there is an option now for large retailers basically to have electronics funds transfer—I stand to be corrected—on a daily or weekly basis. So there is nothing to stop the government from requiring larger

[Translation]

il existe la TVA. Je crois que l'Italie est l'un des pays où l'économie souterraine pose un grave problème.

M. Hoffman: C'est la distorsion que crée tout régime de TVA pure. Il y a cette théorie selon laquelle il existe des «ménages» et des «producteurs». Les producteurs sont taxés par ce mécanisme, tout comme les ménages. Mais si les ménages eux-mêmes deviennent des producteurs et qu'ils ne sont pas taxés, ce qui serait le cas, il y a donc un encouragement évident à produire à la maison ou dans toute chaîne détaxée. Je ne connais pas de statistiques à ce sujet, mais certains sont d'avis que, quand la TVA a été instaurée en Europe, l'économie souterraine a pris de l'ampleur.

M. Minaker: Comment traitez-vous le marché agricole ici à...

M. Warner: J'aimerais un éclaircissement. J'essaie de comparer les avantages et les inconvénients qu'il y a à ce que Loblaws et Home Hardware vendent des brosses. Loblaws vend de plus en plus d'articles taxables et réalise des bénéfices de plus en plus importants grâce à la vente de ces articles. Apparemment, Home Hardware a un rayon qui fait la concurrence avec Loblaws et où l'on trouve des brosses et d'autres articles du genre. Le prix de vente sera le même—disons 1\$ la brosse, par exemple—et la taxe de vente s'élèvera à 8c. Le seul avantage de Loblaws réside dans le mouvement de trésorerie. Les taxes ne seraient pas remises au même rythme que chez Home Hardware.

M. Friedman: Les deux entreprises recevraient un crédit sur leurs achats. Je pense, que si les remises étaient trimestrielles, Home Hardware aurait un avantage puisque ces quincailleries vendent plus de marchandises taxables et qu'elles garderont l'argent des clients. En cas de remises trimestrielles, elles garderont peut-être l'argent des clients un mois et demi en moyenne, tandis que Loblaws n'aura pas beaucoup de taxe à garder puisque la plupart de ses produits ne sont pas taxables.

M. Warner: Mais compte tenu du nombre de brosses vendues, les montants seront retenus pour la même durée?

M. Friedman: Oui, mais il y aura des exigences au sujet des rapports. Loblaws devra présenter un rapport tous les mois, tandis que les quincailleries Home Hardware le feront tous les trimestres.

M. Warner: Ce serait donc un avantage.

M. Friedman: Qui peut compenser les écarts de volume. Mais, grâce aux transerts de fonds électroniques, rien n'empêche le gouvernement d'exiger des remises hebdomadaires ou même instantanées. Je ne suis pas en mesure de vérifier, mais quelqu'un a prétendu que, au Royaume-Uni, les gros détaillants peuvent effectuer des transferts de fonds électroniques—et qu'on me corrige si j'ai tort—tous les jours ou toutes les semaines. Par

[Texte]

organizations to remit collections of VAT more frequently than on a one-month basis.

Mr. Warner: The fact that Loblaw's is zero-rated on all the inputs really does not put them at an advantage in the sale of scrub brushes.

Mr. Friedman: No, it does not.

The Chairman: Before I go on to anybody else, then, suppose we zero-rate farms and then everybody else in the food chain is exempt, so that the several food brokers that pass food from one to another are all exempt. In other words, they pay tax on their non-food inputs, but they cannot write it off. The store is exempt, of course, as far as food is concerned. So they do not charge the tax on the food, but obviously they pay tax on their costs of handling the food. They may have to put that into the price somehow, but we do not lose the revenue. Is that not a sufficient answer to the problem?

Mr. Friedman: No, I think you still have the jurisdictional problem of what a farm is. There are lots of large dairies, for example, that run their own farms. There are restaurant chains that run their own farms. Unless you have some system of being able to equalize the tax paid by one retailer with another retailer, you open yourself to people coming to you and saying hey, this retailer operates their own farms, therefore they are considered a farm and everything they buy is tax-free. We are just a little supermarket; we make 2% on all our sales, yet everything we buy is taxable, and where is the fairness there?

The Chairman: I have not seen a large corporate farm operate efficiently yet. Even in Russia, where they have the collective system, it does not work too well.

Mr. Friedman: That may be. I am not sure of the answer, but you are then adding an extra incentive for other corporations to become farms and run efficiently.

• 1050

Mrs. Collins: This is an example. Say someone developed a product, some kind of a broom; they used something from a farm and it was made into a broom and it went into the chain. Tax was charged all the way up and rebated, but then nobody buys them. They end up in the hardware store, but they are never sold. I assume the government never actually receives any tax.

Mr. Friedman: That is correct. Actually, you highlight one of the problems with the system. In a manufacturer's sales tax, if the tax was paid, then, unless those brooms are returned to the manufacturer, the government already has its money.

[Traduction]

conséquent, rien n'empêche le gouvernement d'exiger des grands organismes qu'ils remettent la TVA perçue plus souvent qu'une fois par mois.

M. Warner: Le fait que Loblaw's ait un taux de taxe nul sur tous les intrants ne lui donne pas vraiment un avantage en ce qui concerne la vente de brosses.

M. Friedman: Non, pas du tout.

Le président: Avant de céder la parole à quelqu'un d'autre, supposons alors que les exploitations agricoles aient un taux de taxe nul tout comme tous les autres membres de la chaîne alimentaire, de sorte que les négociants qui se passent les aliments de l'un à l'autre sont tous exonérés de taxe. Autrement dit, ils paient la taxe sur les intrants autres que les aliments, mais ils ne peuvent se faire rembourser. Le magasin est bien sûr exonéré en ce qui concerne les aliments. Il ne perçoit pas de taxe sur les aliments, mais de toute évidence il en paie sur les frais de manutention des aliments. Il peut donc intégrer cette taxe à ses prix d'une manière ou d'une autre, mais nous ne perdons aucune recette. Cela ne résout-il pas clairement le problème.

M. Friedman: Non, je crois que le problème de la définition juridique d'une exploitation agricole reste entier. Ainsi, beaucoup de grandes laiteries possèdent leurs propres fermes laitières. Des chaînes de restaurants possèdent leurs propres fermes. Si le régime ne permet pas d'équilibrer la taxe payée par les divers détaillants, nous nous exposons à ce que des gens nous disent: écoutez, voilà un détaillant qui exploite ses propres fermes et qui est donc considéré comme une ferme, ce qui lui permet de tout acheter sans payer de taxe. Nous ne sommes qu'un petit supermarché; nous faisons 2 p. 100 de profit sur toutes nos ventes, or tout ce que nous achetons est taxable. Où est la justice dans tout ça?

Le président: Je n'ai pas encore vu de grande société d'exploitation agricole fonctionner efficacement. Même en Russie, en régime collectif, ces fermes ne fonctionnent pas très bien.

M. Friedman: Peut-être. Je ne saurais vous répondre, mais on incite davantage les autres sociétés à devenir des exploitations agricoles et à être efficaces.

Mme Collins: À titre d'exemple, si quelqu'un met au point un produit, une espèce de balai, disons, fabriqué à partir d'un produit cultivé à la ferme et qui entre dans la chaîne. La taxe est perçue et remboursée à toutes les étapes, mais personne n'achète ce produit. Les balais se retrouvent dans les quincailleries, mais ils ne sont jamais vendus. Je suppose que le gouvernement ne recevra jamais de taxe.

M. Friedman: Vous avez raison. En réalité, vous venez de faire ressortir l'un des problèmes du système. Dans un régime de taxe de vente sur la fabrication, si la taxe est payée, à moins que ces balais ne soient retournés au fabricant, le gouvernement a déjà reçu son argent.

[Text]

Mr. Wood: I do not think that is a problem with the system. That is a system with the principles we outlined last night. There has been no final domestic consumption and therefore there is no tax. So it is totally consistent with the system.

Mr. Hoffman: There should not be any tax.

Mr. Friedman: There should not be any tax.

Mrs. Collins: It would have to be consumed.

Mr. Wood: A consumer has to buy it and consume it.

Mrs. Collins: What if they are given away, finally, for charity purposes?

Mr. Friedman: Again, under these proposals, that would not be taxed, because, to the extent that retailer had a cost for those brooms, even though he could not sell them, he is going to build that cost into the price of his other goods. So the government does in fact get tax indirectly, because that is another cost that retailer has to absorb and then it is passed on in his other prices, even though he gave them away to charity.

Mrs. Collins: Under the system could you donate goods to a charitable organization to be sold at an auction?

Mr. Wood: Yes, there are some rules in here where in certain circumstances you could without attracting tax.

Mr. Friedman: But if a charity then goes into running a business in competition with other retailers of the same goods, then there would be provisions to make sure that the charity is also collecting tax on its sales.

Mr. Minaker: Could I extend the further questioning Mary did about that? I can see possibilities of things happening regarding the problem of the fact that we now collect the tax right when the manufacturer produces and sells it. Say that I was going to open up a hardware store. I have to buy all the retail equipment to market it. I buy the inventory. Do I immediately get all the federal sales tax credits back?

Mr. Friedman: Yes.

Mr. Wood: In this new system, yes.

Mr. Minaker: Then I sit on this inventory and I do not really sell it, or I could maybe have some really big sales and sell the material and then go bankrupt. What happens?

Mr. Friedman: You could lose all your federal sales tax.

Mr. Wood: And you are only going to get tax on the final selling price of those goods, even if they are at distressed prices.

Mr. Minaker: But what if the person has creamed off, through the year or the three months or whatever it is, the profits and so on and then flees?

[Translation]

M. Wood: Je ne vois pas de problème. Il s'agit d'un régime dont les principes ont été définis hier soir. Comme il n'y a pas de consommation finale, il n'y a pas de taxe. C'est donc tout à fait conforme à la logique du régime.

M. Hoffman: Il ne devrait pas y avoir de taxe.

M. Friedman: Non, il ne devrait pas y avoir de taxe.

Mme Collins: Il faut qu'un consommateur achète et consomme le produit.

M. Wood: Exactement.

Mme Collins: Qu'arrive-t-il si, au bout du compte, les produits sont donnés à des fins de charité?

M. Friedman: Là encore, aux termes des propositions, ils ne seraient pas taxés parce que, dans la mesure où le détaillant a engagé des frais pour vendre ces balais, même s'il n'a pas réussi, il intègre ces coûts aux prix des autres produits qu'il vend. Par conséquent, le gouvernement reçoit la taxe indirectement, parce qu'il y a un coût que le détaillant doit amortir et intégrer à ses autres prix, même si le produit a été donné à des fins de charité.

Mme Collins: Dans ce régime, peut-on donner des marchandises à un organisme de charité qui les vendra aux enchères?

M. Wood: Oui, des règles prévoient que des ventes de ce genre peuvent s'effectuer dans certaines circonstances et être détaxées.

M. Friedman: Mais si l'organisme de bienfaisance se lance dans les affaires et livre une concurrence à d'autres détaillants du même produit, d'autres dispositions prévoient que l'organisme de charité perçoit lui aussi la taxe de vente.

M. Minaker: Puis-je poser une autre question dans la même veine? Je peux concevoir d'éventuelles difficultés dans le fait que maintenant que nous percevons la taxe dès que le fabricant fabrique et vend sa marchandise. Supposons que je veuille ouvrir une quincaillerie. Je dois acheter tout le matériel d'étalage et de vente. J'achète les stocks. Est-ce que je reçois immédiatement tout le crédit de taxe de vente fédérale?

M. Friedman: Oui.

M. Wood: Dans ce nouveau régime, oui.

M. Minaker: Puis, ces stocks me restent sur les bras. Je n'en vends pas vraiment ou je liquide tout et je fais faillite. Qu'est-ce qui arrive?

M. Friedman: Vous risquez de perdre toute votre taxe de vente fédérale.

M. Wood: Et vous ne percevez la taxe que sur le prix de vente final, même si les prix sont dérisoires.

M. Minaker: Mais qu'est-ce qui arrive si le quincaillier s'est graissé la patte pendant l'année, les trois mois ou peu importe, et qu'il déguerpit?

[Texte]

Mr. Friedman: What you are really highlighting is what we talked about last night, and we are going to talk about it again. If the tax sits in a wholesaler's or a retailer's inventory, then the tax is not collected in stages. It is collected and it is paid back, so the government only receives its take, in those situations, when the retailer sells to the ultimate consumer.

Mr. Minaker: But you could also have \$250,000 of leasehold improvements and equipment, besides the inventory, in some of these places. So you are looking at 12% on \$250,000 that is immediately rebated to the owners. How would you get call on it if all of a sudden they went bankrupt before they even turned over the inventory once? I am saying that money is credited out to that particular company immediately and it is utilized to some degree to create a lower overhead. Do you know what I am saying?

Mr. Friedman: Let us assume we went to a one-stage tax with exemption certificates. That retailer could issue exemption certificates, buy all of that store equipment and fixtures tax free, and then go under, and you have the same problem.

Mr. Minaker: Yes, that is true in that way. But he cannot right now.

Mr. Friedman: Right now he cannot. But right now, where he buys those store fixtures and adds them to his selling price you are double-taxing.

Mr. Minaker: Right. I am just saying that it puts somebody new going into the business at a real advantage to—

Mr. Friedman: But people do not go into business to go bankrupt.

Mr. Minaker: I am saying that the existing businesses have already paid their federal sales tax.

The Chairman: I am going to adjourn the meeting for five minutes to give everybody a quick break and then we are coming back with Mr. Warner and we will get started.

• 1055

• 1100

The Chairman: Let us get it going again. I suggest, Norman, that you have your question, and then we are going to go right on to section two.

Mr. Warner: Very briefly, take the Loblaw's situation. Under our existing system there is a tax that becomes part of the selling price of food, and that is the tax on their cash registers and their counters and on the cars and the trucks. That tax is levied and paid and then passed on to the consumer. If we were to design a system or modify this new proposed system so that we continue to collect a federal sales tax on the cars and the trucks and all of this, I guess what you are telling us is that it becomes very

[Traduction]

M. Friedman: Vous faites allusion à ce dont nous avons discuté hier soir et dont nous reparlerons encore. Si la taxe dort dans les stocks d'un grossiste ou d'un détaillant, elle n'est pas perçue par stade. Elle est perçue et remise, de sorte que, dans ces situations, le gouvernement ne reçoit sa part que lorsque le détaillant vend la marchandise au consommateur final.

M. Minaker: Mais il pourrait bien y avoir aussi pour 250,000\$ d'améliorations locatives et de matériel en plus des stocks. On remet donc immédiatement 12 p. 100 de 250,000\$ aux propriétaires. Comment recouvrer ce montant si tout à coup les propriétaires font faillite avant même d'avoir renouvelé les stocks une fois? L'argent est porté au crédit de l'entreprise immédiatement et sert jusqu'à un certain point à réduire les frais généraux. Voyez-vous ce que je veux dire?

M. Friedman: Supposons que nous adoptions un régime à un seul stade avec certificats d'exemption. Ce détaillant pourrait émettre des certificats d'exemption, acheter tout le matériel et le mobilier du magasin sans payer de taxe, puis faire faillite, ce qui donnerait lieu au même problème.

M. Minaker: En ce sens, vous avez raison. Mais le détaillant ne peut agir ainsi actuellement.

M. Friedman: Actuellement, il ne le peut pas. Mais actuellement, quand il achète ce mobilier et l'ajoute à son prix de vente, il y a double taxation.

M. Minaker: C'est exact. Je dis simplement que celui qui se lance dans les affaires est avantagé. . .

M. Friedman: Mais les gens ne se lancent pas dans les affaires pour faire faillite.

M. Minaker: Les entreprises existantes ont déjà payé leur taxe de vente fédérale.

Le président: Nous ferons maintenant une pause de cinq minutes, après quoi, M. Warner aura la parole.

Le président: Nous reprenons maintenant nos travaux. Je vous suggère, Norman, de poser votre question. Nous passerons ensuite directement à l'article 2.

M. Warner: Revenons très brièvement à l'exemple de Loblaw's. Dans notre régime actuel, il y a une taxe qui devient un élément du prix de vente des aliments, soit la taxe sur les caisses enregistreuses, sur les étalages, sur les automobiles et sur les camions. Cette taxe est imposée et payée puis transmise au consommateur. Si nous devons concevoir un régime ou modifier le nouveau régime proposé de manière à continuer de percevoir la taxe de vente fédérale sur les automobiles, les camions et tout le

[Text]

complicated. Although we can do it, it is going to involve a lot of breaking out of various inputs, so it really is not feasible. Is that what you are saying?

Mr. Friedman: Let me understand your question. What would you like to do?

Mr. Warner: I would like to continue with a system somewhat similar to what it is today, by which we collect a federal sales tax on various goods, such as counters and the cars and the trucks and whatever.

Mr. Friedman: That will continue, because to the extent that the retailer of automobiles. . .

Mr. Warner: No, we are talking about Loblaws.

Mr. Friedman: Okay, we are talking about Loblaws. To the extent that Loblaws builds those automobiles, the advertising expenditures, the cash registers into their selling price of taxable goods, you will recover the tax on the automobiles and on the advertising.

The Chairman: The taxable goods are only one-third of the goods, so you would never recover it maybe.

Mr. Friedman: It seems to me that in competition the prices of those basic groceries are going to be fairly comparable between Loblaws and its competitors and therefore you will be recovering to the extent that you can get a price. . .

Mr. Warner: Okay, let us just get back to the food itself. Forget about the taxable products they retail. They are only selling food, and under our existing system certain federal sales tax is passed on to the consumer. Do you accept that point? How do we take the new system and have something similar? I guess what you are saying is that it is very difficult and probably so difficult that it could not be done.

Mr. Friedman: It is very difficult. As we said before, the problem with the current federal sales tax is that it encourages certain trading patterns; it encourages importers; it encourages goods to flow through certain paths, and by exempting only the retailer in a food situation you are encouraging retailers, as the economists might say, to vertically integrate. You are encouraging the retailer to become the farmer and that way all of his purchases would be exempt. What you are then suggesting is that we are going to have to have somebody that passes on who is a farmer and who is not a farmer, or you get some guidelines on how to allocate between farming and non-farming activities, but in that situation you are just complicating it.

One of the points here was to get rid of the 22,000-odd rulings we have for federal sales tax, to make the system simpler. The more roadblocks you put into that, the more complicated the system is. I understand what you are saying. What you are saying is that you want to remove

[Translation]

reste, vous nous dites que c'est une tâche très compliquée. Pour y arriver, il faudrait une décomposition très détaillée des divers intrants, ce qui n'est pas vraiment possible. Ai-je bien compris vos propos?

M. Friedman: Je ne comprends pas très bien votre question. Que voudriez-vous faire?

M. Warner: Je voudrais maintenir un régime semblable à celui que nous avons actuellement, par lequel nous percevons une taxe de vente fédérale sur diverses marchandises, telles que les étalages, les automobiles, les camions et tout le reste.

M. Friedman: Nous continuerons de le faire, parce que dans la mesure où le concessionnaire d'automobiles. . .

M. Warner: Non, il est question de Loblaws.

M. Friedman: D'accord, il est question de Loblaws. Dans la mesure où Loblaws intègre les coûts liés à ces automobiles, à la publicité, aux caisses enregistreuses dans le prix de vente des produits taxables, on recouvre la taxe sur les automobiles et sur la publicité.

Le président: Les produits taxables ne correspondent qu'au tiers des marchandises. Par conséquent, il se pourrait bien que vous ne recouvriez pas la taxe.

M. Friedman: Il me semble que les prix des produits de base de Loblaws seront assez comparables à ceux de ses concurrents et donc qu'on recouvrera la taxe, dans la mesure où le prix. . .

M. Warner: Très bien, revenons aux aliments eux-mêmes. Oublions les produits taxables vendus chez Loblaws. On ne vend que des aliments et, dans notre régime actuel, une partie de la taxe de vente fédérale est transmise au consommateur. Êtes-vous d'accord là-dessus? Comment nous y prenons-nous pour que le nouveau régime ait le même effet? Vous semblez dire que c'est très difficile et probablement si difficile que c'est presque impossible.

M. Friedman: C'est très difficile. Comme nous l'avons déjà dit, le problème que pose la taxe de vente fédérale actuellement est qu'elle favorise certains profils commerciaux; elle favorise les importations; elle incite les marchandises à circuler dans certains canaux et, en n'excluant que le détaillant dans le domaine des aliments, on incite les détaillants à s'intégrer verticalement, pour reprendre les termes employés par les économistes. On incite les détaillants à devenir agriculteurs, puisqu'aucun de ses achats ne sera taxé. Vous laissez entendre que nous aurons besoin de quelqu'un pour décider qui est agriculteur et qui ne l'est pas, ou de lignes directrices sur la façon de définir les activités agricoles et les activités non agricoles, ce qui ne fait que compliquer la situation.

L'un des objectifs visés consiste à se débarrasser des quelque 22,000 règlements qui régissent la taxe de vente fédérale, à simplifier le régime. Plus nous érigeons de garde-fous, plus le régime se complique. Je comprends ce que vous dites. Vous déclarez que vous voulez abolir la

[Texte]

the tax from the food component of food and not the luxury component of food.

The Chairman: The service component of it.

Mr. Friedman: Yes.

• 1105

The Chairman: In other words, we have a service component in terms of counters and space and that kind of thing, whereas if I buy the food directly from the farmer at the end of the lane, I buy it tax-free. I buy my eggs there. If I go and buy them, having had them all graded and the rest of it, and put them through a Loblaw's check-out counter, surely to goodness there ought to be the tax that is implicit in all of the services that made that grocery store a possibility.

Mr. Hoffman: You will not get that tax. Your model of the world assumes that people will not change their behaviour. But what we are trying to tell you is that firms will vertically integrate, change their behaviour and at the end of the day you will not get that tax.

Mr. Friedman: I am looking at a farmer—

The Chairman: You are suggesting, Lorey, that the A&P will all of a sudden start acquiring all of the farms in Ontario, are you?

Mr. Hoffman: What you will do is push them in that direction.

The Chairman: I am asking you, do you see that as a possibility at all? Or do you just think you are fearmongering? I mean, do you really think that the A&P, the Atlantic and Pacific Tea Company, will go out and start buying up the farms?

Mr. Hoffman: I think in the United States there are something like six or seven producers that sell something like 90% of all the chicken sold in the United States.

The Chairman: Those are processors, not producers; they are processors only. Processors do not produce the chicken; it is a processing operation.

Mr. Hoffman: Well I think you will push people in that direction.

Mr. Friedman: But it does raise the issue, you have all these lines. As we sit here, I think of the farmers who promote their goods. I do not want to mention the kind of goods, but I am sure we have all seen commercials for certain pure food items that are being advertised. I do not know how the money is raised for the funds, but I am sure the farmers in some way contribute to that. Now, are you going to tax or exempt those advertising activities by farmers? I mean, those are the kinds of questions you get into and unless you have easy rules for everything, what you are going to be doing is spending all of your time writing up rules about if a farmer advertises in the local newspaper that is okay but if he buys a television spot on the national network that is not okay.

[Traduction]

taxe sur la portion aliment des aliments et non sur la portion de luxe.

Le président: Sur la portion service.

M. Friedman: Exactement.

Le président: Autrement dit, un élément de service intervient avec les comptoirs, l'espace et les choses du même genre, tandis que si j'achète l'aliment directement chez l'agriculteur lui-même, je l'achète détaxé. J'achète mes oeufs là-bas. Si je vais les acheter, si je les fais classer et tout le reste, et s'ils passent à la caisse d'un Loblaw's, bonté divine, il est certain qu'il devrait y avoir la taxe qui est implicite sur tous les services qui permettent l'existence de ce magasin d'alimentation.

M. Hoffman: Vous n'aurez pas cette taxe. Votre modèle suppose que les gens ne changeront pas d'attitude. Or, ce que nous essayons de vous faire comprendre, c'est que les entreprises procéderont à une intégration verticale, modifieront leur comportement et en fin de compte vous n'obtiendrez pas cette taxe.

M. Friedman: Je pense à un agriculteur. . .

Le président: Vous voulez dire, Lorey, que les magasins A&P vont acheter tout d'un coup toutes les fermes de l'Ontario?

M. Hoffman: Vous allez les inciter à le faire.

Le président: Je vous pose la question: cela vous semble-t-il possible? Ou bien pensez-vous que vous êtes seulement alarmiste? Pensez-vous vraiment que les magasins A&P (Atlantic and Pacific Tea Company) vont commencer à racheter les fermes?

M. Hoffman: Je crois savoir qu'aux États-Unis environ six ou sept producteurs vendent approximativement 90 p. 100 de tous les poulets vendus au pays.

Le président: Il s'agit de transformateur et pas de producteur; ce sont uniquement des transformateurs. Ils ne produisent pas les poulets, car c'est une entreprise de transformation.

M. Hoffman: A mon avis, vous allez inciter les gens à suivre cette voie.

M. Friedman: Mais la question est soulevée, il y a toutes ces lignes. Pendant que nous sommes assis ici, je pense aux agriculteurs qui font la promotion de leurs produits. Je ne veux pas préciser de quels produits il s'agit, mais je suis certain que vous avez tous regardé les annonces publicitaires concernant certains produits alimentaires purs qui sont annoncés. Je ne sais pas d'où vient l'argent pour cette publicité, mais je suis persuadé que les agriculteurs y contribuent d'une certaine manière. Allez-vous taxer ou non ces activités publicitaires entreprises par les agriculteurs? Voilà le genre de questions que vous allez rencontrer; à moins d'avoir des règles faciles à suivre pour tout le monde, vous allez passer tout votre temps à rédiger des règles stipulant que

[Text]

I think about ways of getting to what you are suggesting but it is clear there is no middle ground. You either continue the way you are doing things or you eliminate tax from food. Or tax food. God forbid, tax food completely and somehow provide relief to the people that need relief from the tax on food.

Mr. Bert Waslander (Committee Researcher): An added argument, I think, is the complexity of the administration for the grocer. If you exempt the grocery store on the sales of food, then the store presumably also sells taxable items. Okay, what happens is that we then we get into the problems that were referred to earlier. We have to distinguish between those inputs that were used in the sale of taxable items, because you would get a credit on the taxes paid for those, but you would not get a credit on the taxes you paid on the items which are exempt, the basic groceries. So you get this problem of having to apportion inputs to taxable and non-taxable sales. Combining an exempt operation with a taxable operation is a very awkward thing to do, so I think you are really asking for a hell of a lot of trouble in terms of compliance costs and bookkeeping and all that.

The Chairman: That is a well-made point.

Mr. Friedman: It is a good point, and without trying to be sarcastic what you then say is the tax practitioners will make sure that all of the shelves for supermarkets are bought to hold taxable goods and once you get a credit then you take the basic groceries and put them on that shelf. So then you have to start having change of use rules as well for your input. So that is the kind of thing you are looking at, because it is done right now. Most manufacturers buy forklift trucks for the production operations and then over a number of years the forklift trucks end up in warehousing, which is not an exempt function.

Mr. Cassidy: As long as there is any type of exemption obviously this kind of situation is going to prevail. I said at the very beginning that it was just absolutely wrong to tax food. I cannot have been that far off the mark, because the Minister of Finance is now agreeing with me. I recognize that there are obviously some problems which are not found if you have everything subject to tax.

• 1110

We will leave the question of food now and talk about exports. Let us suppose there is a shipment of Canadian-made products that are about to go abroad. The

[Translation]

si un agriculteur fait de la publicité dans le journal local, ça va, mais s'il achète une annonce publicitaire au réseau national de télévision, ça ne va pas.

Je cherche le moyen d'en arriver où vous voulez, mais il est clair qu'il n'y a pas de juste milieu. Ou bien vous maintenez les choses telles qu'elles sont, ou bien vous éliminez la taxe des produits alimentaires, ou encore vous taxez les aliments. A Dieu ne plaise, taxez donc intégralement les aliments et accordez une certaine forme d'allègement aux personnes qui ont besoin d'un dégrèvement de cette taxe.

M. Bert Waslander (attaché de recherche du Comité): Un argument supplémentaire est la complexité du travail administratif pour l'épicier. Si vous exemptez l'épicerie de la taxe sur les ventes de produits alimentaires, ce magasin vend probablement aussi des articles taxables. Nous retombons encore une fois sur les problèmes qui ont déjà été mentionnés. Il faut faire la distinction entre les intrants qui ont servi dans la vente des produits taxables, car vous obtiendrez un crédit pour les taxes payées pour eux, mais vous n'obtiendrez pas de crédit pour les taxes payées sur les articles qui sont exonérés, les aliments de base. On se retrouve donc avec le problème qui consiste à répartir les intrants entre les ventes taxables et non taxables. Il est très délicat d'avoir à la fois une entreprise exonérée et une entreprise taxable; vous allez donc tout droit vers des tas de problèmes en ce qui concerne les coûts d'observation et de terme de livre, etc.

Le président: C'est une excellente remarque.

M. Friedman: C'est une bonne remarque et, sans vouloir être sarcastique, ce que vous essayez de nous dire, c'est que les fiscalistes s'assureront que toutes les étagères des supermarchés sont réservées pour des biens taxables et, lorsque vous aurez obtenu un crédit, alors vous pourrez aller chercher les aliments de base et les mettre sur ces étagères. Il faudra donc avoir également de nouvelles règles d'utilisation pour vos intrants. C'est le genre de chose que l'on voit, car cela se passe comme cela aujourd'hui. La plupart des fabricants achètent des chariots élévateurs pour leurs activités de production et, après un certain nombre de d'années, ces chariots élévateurs se retrouvent dans l'entrepôt, qui n'est pas une fonction exonérée.

M. Cassidy: Tant qu'il y aura une forme quelconque d'exemption, il est évident que l'on rencontrera ce genre de situation. J'ai dit tout au début qu'il était totalement aberrant de taxer les aliments. Je ne devais pas être loin de la réalité puisque le ministre des Finances est maintenant d'accord avec moi. Je reconnais qu'il y a évidemment des problèmes que l'on ne rencontre pas si l'on taxe tous les produits.

Laissons maintenant de côté la question des aliments et passons aux exportations. Supposons qu'il y a une cargaison de produits canadiens en partance pour

[Texte]

manufacturer must work out the amount of tax for which he is eligible for rebate.

Mr. Friedman: There is no worry here, because he got a credit for all purchases. Whether he sold them domestically or he intended to export them, he got a credit as soon as he bought the goods. So it is easy. There is no tax content of exports. There is no tax content of any sales because on domestic sales you add tax based on the selling price of the goods and on exports you do not charge tax. Therefore it is really the only pure way of removing the tax content of exports.

Mr. Cassidy: In essence therefore an export is zero-rated—is that the effect?

Mr. Friedman: Yes, exactly. That is correct.

Mr. Cassidy: So you do not have attribution problems with that.

Mr. Friedman: None at all.

Mr. Cassidy: There will then be some tendency, if the manufacturer has a choice, between carrying out sales promotion activities from a Canadian base or carrying them out from, let us say, an American base, to possibly—

Mr. Friedman: No, because if he carries them out in Canada, he pays tax on sales promotion and he gets a credit as soon as he gets his invoice. There would only be an incentive for carrying out promotion outside the country, as we said last night, if it were an exempt institution or individuals advertising for a husband or a wife. You can get around paying the tax as a consumer by doing it outside of the country.

Mr. Cassidy: Are you saying that those personal ads in *The Citizen* are going to be taxed?

Mr. Friedman: Yes, they are. But if you do them in *The Washington Post* they will not be taxed.

The Chairman: Andy, you were on page 2-1 and you were saying that New Zealand's is not equivalent to Canada's GST.

Mr. Friedman: Let us go on to page 2-2. Page 2-2 addresses the question you have all been dying to hear answered and I think we have answered it: what is the difference between the two proposed federal alternatives? One is a GST or books-of-account method. . . Last night people were saying whatever happened to BTT? We should have put in brackets that this was the former BTT. The other is the VAT or credit invoice method. As we said last night, the one fundamental difference is that GST tracks taxed purchases, while VAT tracks the tax content of purchases. Both require accumulation of an additional set of data by most businesses.

[Traduction]

l'étranger. Le fabricant doit calculer le montant de la taxe pour laquelle il a droit à un remboursement.

M. Friedman: Il n'y a pas de souci à se faire dans ce cas-là, car il a reçu un crédit pour tous les achats. Qu'il ait vendu ses produits sur le marché canadien ou qu'il ait eu l'intention de les exporter, il a reçu un crédit dès qu'il a acheté les biens. C'est donc facile dans ce cas puisqu'il n'y a pas de taxe sur les exportations. Il n'y a pas de taxe sur les ventes, car dans les ventes au Canada, on ajoute la taxe sur le prix de vente des marchandises, et dans les exportations, on n'ajoute pas de taxe. C'est donc le seul moyen parfait de supprimer la taxe des exportations.

M. Cassidy: Essentiellement, le taux de taxe est donc de zéro pour les exportations—est-ce bien cela?

M. Friedman: Exactement. C'est exact.

M. Cassidy: Il n'y a donc pas de problème d'imputation dans ce cas.

M. Friedman: Pas du tout.

M. Cassidy: Il y aura donc une certaine tendance, si le fabricant a le choix entre lancer des activités de promotion à partir d'une ville canadienne ou, disons, américaine, éventuellement à . . .

M. Friedman: Non, parce que s'il effectue les activités de promotion au Canada, il paye de la taxe et reçoit un crédit dès qu'il obtient sa facture. Le seul cas qui pourrait l'encourager à faire des activités de promotion à l'étranger, comme nous l'avons mentionné hier soir, serait celui d'une institution exonérée ou de particuliers faisant de la publicité pour un conjoint. Il est possible de contourner le système de paiement de la taxe à la consommation en le faisant à l'étranger.

M. Cassidy: Etes-vous en train de me dire que les petites annonces personnelles qui paraissent dans le *Citizen* seront taxées?

M. Friedman: Oui, elles le sont. Mais si vous les faites passer dans le *Washington Post*, elles ne le seront pas.

Le président: Andy, vous étiez à la page 2-1 et vous disiez que le système néo-zélandais n'est pas équivalent à la TBS canadienne.

M. Friedman: Passons à la page 2-2. Elle aborde la question pour laquelle vous m'auriez tous d'envie d'avoir une réponse, et je pense que nous y avons répondu: quelle est la différence entre les deux options fédérales proposées? L'une est une TBS ou méthode des livres comptables. . . Hier soir, certaines personnes ont demandé ce qui était advenu de la TTC? Nous aurions dû inscrire entre crochets qu'il s'agissait de l'ancienne TTC. L'autre option est la TVA ou méthode des crédits et des factures. Comme nous l'avons dit hier soir, la différence fondamentale réside dans le fait que la TBS tient compte des achats taxés, alors que la TVA tient compte de la part de la taxe dans les achats. Les deux taxes obligent la plupart des entreprises à établir un ensemble supplémentaire de données.

[Text]

Now, GST or the books-of-account method. . . Please look at page 55 of the white paper, in English, or page 61 of the French version. I added the words "in theory":

In theory, the tax could be calculated using information from the books of account already maintained by firms.

The Chairman: Right on.

Mr. Friedman: In practice, you must set up a minimal account to keep track of all tax purchases and taxable sales, compute tax on taxable sales, and deduct credit for tax purchases. This is shown on page 146 of the English version and page 161 of the French version in the example.

Nowhere is there a formula that simply allows you to take the financial statements, or the trial balance of the organization, and pull out the numbers. In example one you have to accumulate input tax credit on the whole amount. So not only do you post it to inventory purchases, capital equipment, wages but you also keep track of all your purchases in the second numeric column. What we are saying is that you have a choice to either have a bucket with all of the tax in it, or to have a bucket with all of the taxable purchases. So it is six of one, half a dozen of the other.

• 1115

The Chairman: Well, it is not entirely, because the original BTT concept—that is, the theoretical use of the current books of account—is something that can be sold to the business community. If you are going to try to sell to the business community, particularly the small business community, something that requires a further set of accounts, you are swimming up the Niagara Gorge. You are going nowhere.

So why can we not design something that makes the theory more practical? Why do you really have to keep track of the tax itself? Do you really not have to keep track of certain classes of purchases as being deductible from the domestic sales?

Mr. Friedman: I guess I am asking what the difference is between accumulating purchases and accumulating the tax. If it were that easy, then I would suggest—

The Chairman: Because you presently keep track of purchases but you do not presently keep track of tax, because the tax is not charged.

Mr. Friedman: You presently keep track of purchases in 50 million different places. A bank with 1,500 branches may have 1,500 petty cash accounts, entertainment accounts, whatever; it is not in one place. You are going to have to accumulate these things, and you are going to have to differentiate between creditable and non-creditable purchases.

[Translation]

Passons maintenant à la TBS ou méthode des livres comptables. . . suivez à la page 61 du Livre blanc en français à la page 55 en anglais. J'ai ajouté les mots «en théorie»:

En théorie, la taxe peut être «calculée à l'aide des renseignements comptables déjà obtenus par les entreprises».

Le président: Très bien.

M. Friedman: En pratique, il faut mettre sur pied un compte minimal pour retracer tous les achats taxés et les ventes taxables, calculer la taxe sur les ventes taxables et déduire le crédit pour les achats taxés. Cela figure dans l'exemple donné à la page 161 de la version française ou 146 de la version anglaise.

Il n'existe aucune formule permettant de prendre les états financiers ou la balance de vérification de l'entreprise et d'en extraire les chiffres. Dans l'exemple 1, il faut additionner le crédit de taxe sur les intrants sur le montant total. Il faut donc non seulement le reporter dans les achats en stock, les biens d'équipement, les salaires, mais également tenir compte de tous vos achats dans la deuxième colonne de chiffres. Vous avez donc essentiellement le choix entre mettre toute la taxe dans le même panier ou tous les achats taxables dans le même panier. C'est donc bonnet blanc et blanc bonnet.

Le président: Eh bien, pas tout à fait, car le concept initial de la TTC—c'est-à-dire l'usage théorique des livres comptables existants—est un système que l'on peut vendre au monde des affaires. Si vous essayez de vendre au milieu des affaires, surtout aux petites entreprises, quelque chose qui exige de nouveaux comptes, vous nagez à contre-courant et vous n'allez nulle part.

Pourquoi alors ne pas concevoir un système permettant de mettre la théorie en pratique? Pourquoi faut-il absolument tenir compte de la taxe? Ne faut-il pas tenir compte de certaines catégories d'achat qui sont déductibles des ventes réalisées au Canada?

M. Friedman: Je demande, je crois, quelle est la différence entre la comptabilisation des achats et la comptabilisation de la taxe. Si cela était si facile, je suggérerais. . .

Le président: Parce que l'on tient actuellement compte des achats, mais pas de la taxe, puisque la taxe n'est pas imposée.

M. Friedman: A l'heure actuelle, on tient compte des achats à des milliers d'endroits différents. Une banque qui compte 1,500 succursales peut avoir 1,500 comptes de petites caisses, comptes de représentation, etc.; tout cela ne se trouve pas au même endroit. Il faudra donc comptabiliser tous ces chiffres, et vous devrez faire la distinction entre les achats donnant droit à un crédit et les autres.

[Texte]

If I bring some goods in across the border, I am going to get an invoice for the goods and I may get an invoice later on from the customs brokers for the tax on that purchase. They are not together. I have the purchase somewhere, but that purchase is not creditable. The tax on it is creditable, but it is going to come from somewhere else. The two are not together.

So if all you did was to add up all purchases of the organizations, then you would end up with some double-counting, perhaps. Therefore you are going to have to start keeping different purchases.

We tend to ride down government employees sometimes, and the people in the Department of Finance. They researched this, yet they cannot present you with a simple subtractive method. I am not an economist, but it is an economist's dream that you can just take the financial statements of a large corporation, take the sales less the purchases, apply a tax, and that is your tax liability. If it were that simple, I think it would have appeared in the pages of this white paper.

Mr. Wood: There are a couple of further reasons why you would have to identify the amount of tax anyways, having nothing to do with the actual computation of the sales tax. But for income tax purposes the capital cost of the desk. . . Say you buy this desk for \$100 plus \$8 tax. You get the \$8 back. Therefore the capital cost should only be \$100. So for income tax purposes, as stated in the finance papers, one would have to extract the tax. That is one thing. As well, the bean-counters would say hey, you got the \$8 back; the real cost of the desk was only \$100. Therefore for accounting purposes, for the bean-counters and the financial statements, you would also have to extract the tax.

So for those additional two reasons. . . that is another factor in why a business would want to have a separate memo account of the tax attributable to the various class of purchases.

Mr. Friedman: Peter alludes to something we were going to cover later. But if you turn to page 106, "Interaction with the Income Tax Act", in the calculation of a business's taxable income for income tax purposes, purchases and sales will be recorded net of any sales tax content. That implies you will have to make some computations. Similarly, acquisition of depreciable property will be recorded net of tax, and capital cost allowance will be calculated on this tax-excluded basis, which means you have to extract that information as it comes through the front doors of the organization.

Shall we go on? In the VAT or credit invoice method you compute tax liability as the difference between the tax payable on sales and the tax credit on purchases. It is a simple concept to understand. In one bucket you collect the tax payable, and in the other bucket you collect the taxes that were paid on your purchases. You take the difference, and instead of a memo account for tax

[Traduction]

Si j'achète certains produits à l'étranger, j'obtiendrai une facture pour les produits et peut-être plus tard une facture des courtiers en douane pour la taxe sur cet achat. Les factures ne viennent pas ensemble. Il y a l'achat quelque part mais il ne donne pas droit à crédit. Par contre, la taxe donne droit à crédit, mais elle viendra d'une autre source. Les deux sont séparés.

Si vous additionnez donc simplement tous les achats de l'entreprise, vous finirez par avoir éventuellement une comptabilité double. Il vous faudra donc commencer par tenir des comptes séparés pour les achats.

On a parfois tendance à dévaloriser les fonctionnaires et les gens du ministère des Finances. Ils ont fait des recherches là-dessus et sont pourtant incapables de vous présenter une méthode soustractive simple. Je ne suis pas économiste, mais tout économiste rêve de pouvoir prendre simplement les états financiers d'une grande entreprise, les ventes moins les achats, d'y appliquer une taxe et d'obtenir votre dette fiscale. Si c'était aussi simple que cela, il en serait fait mention dans le présent Livre blanc.

M. Wood: Il existe d'autres raisons pour lesquelles il vous faudrait de toute façon identifier le montant de la taxe, et ces raisons n'ont rien à voir avec le calcul réel de la taxe de vente. Aux fins de l'impôt sur le revenu, le coût en capital du bureau. . . disons que vous avez acheté ce bureau pour 100\$ plus 8\$ de taxe. Vous obtenez un remboursement de 8\$. Le coût en capital devrait donc s'élever seulement à 100\$. Aux fins de l'impôt sur le revenu, comme le mentionnent les documents des Finances, il faudrait donc extraire la taxe. C'est là une première chose. En outre, les comptables interviendraient pour dire que vous avez reçu le remboursement de 8\$, le coût réel n'était donc que de 100\$. Aux fins comptables, pour les comptables et les états financiers, il vous faudrait donc également extraire la taxe.

Pour ces deux raisons supplémentaires. . . c'est donc là un autre élément pour lequel une entreprise voudra avoir un compte pour mémoire séparé faisant état de la taxe imputable aux diverses catégories d'achat.

M. Friedman: Peter fait allusion à quelque chose que nous nous proposons d'aborder plus tard. Mais si vous passez à la page 115 «Interaction avec la Loi de l'impôt sur le revenu», dans le calcul du revenu imposable d'une entreprise, les achats et les ventes seront comptabilisés nets de la taxe de vente. Cela signifie qu'il faudra faire certains calculs. De même, les achats de biens amortissables seront inscrits hors taxe, et la déduction pour amortissement sera calculée sur ce coût hors taxe, ce qui signifie qu'il faudra extraire ce renseignement au moment de l'arrivée des biens dans l'entreprise.

Pouvons-nous continuer? Dans le cas de la TVA ou méthode des crédits et des factures, on calcule la taxe nette à payer en faisant la différence entre la taxe payable sur les ventes et le crédit de taxe sur les achats. C'est un concept facile à comprendre. Dans un panier, on met la taxe payable et, dans l'autre, les taxes payées sur les achats. On fait la différence, et au lieu d'avoir un compte pour

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purchases, businesses must retain a memo account for the tax content of purchases.

[Translation]

mémoire pour les achats taxés, les entreprises doivent conserver un compte pour mémoire pour la taxe payée sur les achats.

• 1120

The Chairman: This is on capital types of purchases.

Mr. Friedman: No. If you go back to 106, in a calculation of the taxable income of a business for income tax purposes, purchases and sales will be recorded net of any sales tax content. So it is not going to be as simple as saying let us take eight 108s—because the paper suggests that any business will exclude the tax at the time they are recording these amounts in the books of original account.

Mr. Minaker: If Revenue Canada allows certain items to be considered costs of business—I am thinking of entertainment and so on—and you can deduct a percentage of them and you have to pay sales tax on that, then will you be able to claim sales tax on that? In other words, if I am in the real estate business and I am selling real estate and I take somebody out for lunch and so on and I have to pay tax at the restaurant for that, if federal sales tax is applied—

Mr. Wood: In the absence of any special rule, you would get a credit for all the tax on the meal.

Mr. Minaker: Is that 100% of the cost.

Mr. Wood: Yes, 100%, but we can only assume that—

Mr. Minaker: But we could only claim 80% in our cost of business?

Mr. Wood: Finance has been silent so far on this, but I would assume that they would probably parallel the income tax rule.

Mr. Minaker: So any entertainment or travel costs that are allowed under the income-tax-for-corporations rules as a cost of business you will be able to claim in your tax pool; that is, the tax you paid on that?

Mr. Wood: That is likely, yes.

Mr. Friedman: The rules are independent right now.

Mr. Wood: Although right now, when you look at the paper itself, there are a number of areas where it parallels income tax rules—for instance, with club fees—

Mr. Minaker: But the general thought at present is that you would be able to collect and put that tax—

Mr. Wood: No, you would not be able to put it in your pocket. For instance, club fees are denied under the Income Tax Act, and there is a proposal in here that they would be non-deductible for sales tax purposes. So the inference is that there would be a parallel with the income tax system. It is fairly vague on expenses, but I can

Le président: Cela s'applique aux achats d'immobilisations.

M. Friedman: Non. Si vous revenez à la page 115, dans le calcul du revenu imposable d'une entreprise, les achats et les ventes seront comptabilisés nets de la taxe de vente. Ce n'est donc pas aussi simple que de dire prenons huit cent huitièmes—car le document laisse entendre que les entreprises exclueront la taxe au moment d'inscrire ces montants dans les livres du compte initial.

M. Minaker: Si Revenu Canada permet de considérer certains articles comme des frais d'entreprise—je pense aux frais de représentation entre autres—et si vous avez le droit d'en déduire un pourcentage et si vous devez payer une taxe de vente sur ce montant, serez-vous autorisé à réclamer la taxe de vente sur cela? Autrement dit, si je travaille dans le secteur immobilier et si je vends des immeubles et invite quelqu'un à déjeuner et tout le reste, je devrai payer de la taxe au restaurant, si la taxe de vente fédérale s'applique. . .

M. Wood: En l'absence de toute règle spéciale, vous obtiendriez un crédit pour toute la taxe payée sur le repas.

M. Minaker: Cela veut dire 100 p. 100 du coût?

M. Wood: Oui, 100 p. 100, mais on peut simplement supposer que. . .

M. Minaker: Mais on ne pourrait déduire que 80 p. 100 dans nos frais d'entreprise?

M. Wood: Jusqu'à présent, les Finances n'ont rien dit à ce sujet, mais je suppose qu'ils vont probablement suivre la règle de l'impôt sur le revenu.

M. Minaker: Il sera donc possible de réclamer dans votre compte de taxe les frais de représentation ou de déplacement qui seront autorisés en vertu des règles concernant l'impôt sur le revenu des sociétés, c'est-à-dire la taxe payée sur ce montant?

M. Wood: Vraisemblablement, oui.

M. Friedman: A l'heure actuelle, les règles sont indépendantes.

M. Wood: Bien qu'à l'heure actuelle, si l'on regarde de près le document, il existe un certain nombre de cas où l'on suit les règles de l'impôt sur le revenu—par exemple, en ce qui concerne les frais d'adhésion à un club. . .

M. Minaker: En règle générale, vous pourriez à l'heure actuelle percevoir cette taxe et la mettre. . .

M. Wood: Non, vous ne pourriez pas la mettre dans votre poche. Par exemple, les frais d'adhésion à un club sont refusés en vertu de la Loi de l'impôt sur le revenu, et il y a dans le présent document une proposition à l'effet qu'ils ne seraient pas déductible aux fins de la taxe de vente. J'en conclus donc qu'il y aurait un certain

[Texte]

only assume that the two would probably be brought into line, although there has been no clear expression from the Department of Finance.

Mr. Friedman: Page 2-3 reviews what we tried to show you yesterday. It is just a simple example of how the tax is collected in stages. Whether it is a VAT or a GST, it comes out the same. In this case we have a miner selling goods to a steel mill, who sells the goods to a manufacturer. It ends up at a retailer. Before the tax, the miner would make his sales for \$100 to the steel mill, who sells for \$150 to the manufacturer, who sells at \$225, who sells to the retailer at \$500. The miner would tack \$8 tax on his sales, for a total price of \$108. It would cost the steel mill \$108. They would get a credit of \$8, and the net tax remitted, because the steel mill's sales figure is \$150, would be \$4.

This is what we talked about before when the gentlemen on my left asked what happens if you hold on to inventory. What happens is you would get the \$8 back. The government now has none of your funds. This would happen if say the steel mill holds the inventory over one remittance period. They would get the credit for the purchases, but there would be no requirement for them to remit taxes on sales because the sales have not occurred yet. So at that point the government is out the money, until the steel mill sells the goods to a manufacturer and withholds \$12.

• 1125

Now, that \$12 then becomes a credit to the manufacturer, and the manufacturer sells for \$225. Tax on sales is \$18; they get a credit for \$12; net tax remitted is \$6, and down to the retailer. The total tax collected in stages through a payment and credit mechanism is \$40. At \$500 times 8%, it would still be \$40 under a single-stage retail tax as well.

That is a simple example, very identical to the example we had before, but it is one we should review before we get into a little bit more complicated example. There are only six cost elements, and you can see that even with six cost elements it becomes less than simple.

On page 2-4 is a fact pattern for computing a GST and VAT. We have ABC appliance manufacturer; we have assumed an 8% tax rate. The supplier has sales in Canada and some sales in the United States. He purchases steel; he purchases other components from foreign manufacturers. He pays salaries and benefits to employees. He purchases machines to be used in manufacturing. He places ads in the U.S. to help him in his sales in the U.S. He pays some interest. He has some borrowings and pays some interest to a financial institution.

[Traduction]

parallélisme avec le système de l'impôt sur le revenu. Il est assez vague sur le plan des dépenses, mais je ne peux que supposer que les deux systèmes seraient probablement alignés, même si le ministère des Finances n'a rien dit de précis à ce sujet.

M. Friedman: La page 2-3 passe en revue ce que nous avons essayé de vous démontrer hier. C'est simplement un exemple pour montrer comment la taxe est perçue à divers stades. Qu'il s'agisse d'une TVA ou d'une TBS, cela revient au même. Dans le cas présent, un mineur vend des biens à une aciérie, qui vend les siens à un fabricant, et le tout va jusqu'à un détaillant. Avant la taxe, le mineur vend pour 100\$ à l'aciérie, qui vend pour 150\$ au fabricant, qui vend pour 225\$ au détaillant, qui vend lui-même pour 500\$. Le mineur ajoute 8\$ de taxe sur ses ventes pour un prix total de 108\$. Les biens coûtent donc 108\$ à l'aciérie. Cette dernière reçoit un crédit de 8\$ et verse donc une taxe nette de 4\$, puisque ses ventes sont de 150\$.

C'est de cela que nous avons parlé auparavant lorsque le monsieur assis à ma gauche a demandé ce qui se passe si vous conservez les biens en stock. Ce qui se passe, c'est que vous obtenez le remboursement de 8\$. Le gouvernement ne reçoit donc aucun argent de votre part. C'est ce qui se passerait si l'aciérie conservait son stock pendant une période de versement. Elle obtiendrait le crédit pour les achats, mais elle n'aurait pas besoin de verser les taxes sur les ventes puisque les ventes n'ont pas encore eu lieu. À ce stade, le gouvernement n'a donc pas l'argent jusqu'à ce que l'aciérie vende les produits à un fabricant et retienne 12\$.

Ce montant de 12\$ devient un crédit pour le fabricant, qui vend pour 225\$. La taxe sur les ventes s'élève à 18\$, et il obtient un crédit de 12\$, si bien que la taxe nette versée est de 6\$, et nous arrivons au détaillant. En suivant les divers stades du mécanisme de versement et de crédit, la taxe totale perçue est de 40\$. Si l'on prend 8 p. 100 de 500\$, on obtiendrait toujours 40\$ dans le cadre d'une taxe au détail à un seul stade.

Il s'agit là d'un exemple très simple, semblable au précédent, mais il conviendrait de bien le revoir avant de passer à un exemple un peu plus compliqué. Il n'y a que six éléments de coût, et vous pouvez constater que même avec six éléments de coût, c'est loin d'être simple.

La page 2-4 est une feuille de chiffres pour le calcul de la TBS et de la TVA. Prenons le fabricant d'appareils ménagers ABC et un taux de taxe de 8 p. 100. Le fournisseur a des ventes au Canada et quelques ventes aux États-Unis. Il achète de l'acier et aussi d'autres composants à des fabricants étrangers. Il verse des salaires et des avantages sociaux à ses employés. Il achète des machines pour la fabrication. Il fait de la publicité aux États-Unis pour promouvoir ses ventes dans ce pays. Il verse des intérêts. Il a quelques emprunts et verse des intérêts à un établissement financier.

[Text]

Now, column 1 is the supplier to which he sells. Column 2 is tax paid by the supplier. That is clearly used for VAT computation. Column 3 is used for the GST computation; that is the purchases on which tax has already been paid. Column 4 is used by neither; it really is the purchase price of all the components. Column 5 is the selling price.

So if we stay with that, when steel is purchased from the steel mill the invoice would show a tax of \$5,556 and the total amount of the taxed purchase would be \$75,000. Now, when he purchases other components from a foreign manufacturer, you would ask why the purchase price is not under taxed purchases. That is simply because, when he purchases other components from a foreign manufacturer, the invoice will come in without tax having been added on. The appliance manufacturer has to obtain another purchase, and that other purchase is a purchase of customs or sales tax services from a broker, and he would send the broker that \$1,852.

Salaries and benefits for employees: that is part of value-added and does not get put into the equation.

Machines: he buys a piece of machinery for \$60,000, tax included. It would show \$4,444, and that would go in the tax-paid column.

Advertising is—

The Chairman: A foreign expense.

Mr. Friedman: Yes, advertising is a foreign expense. Interest is basically not creditable, as the proposals stand right now, so it would show up only in purchase price.

Under a simple system, if you look at the column, ideally you should just be able to take 8/108 of that \$235,000 in purchases. You cannot do that because it has interest, it has foreign advertising, it has salaries, it has other components that were purchased abroad.

So if you then take page 2-5, it shows you the two ways of computing the tax. First we look at a GST or subtractive method, and you take the bottom of column 5, which is a selling price of \$325,000. The sales in the U.S. do not come into the equation.

The Chairman: They do not go into the top.

Mr. Friedman: Yes. You take off taxable purchases, which are the steel mill and the machines—that is \$135,000—and the tax embedded is 8/108, which is \$24,074 on sales. The purchases work out exactly to \$10,000. The net difference is \$14,074. Then you say “Wait a second, I paid some tax at the border”. So then you have a separate account which tracks tax that you might have paid to your customs broker at the border, and that is the \$1,852, which is paid at the border and gives you a net liability of \$12,222. In that computation example—

[Translation]

La colonne 1 représente le fournisseur auquel il vend. La colonne 2 est la taxe payée par le fournisseur. Elle est utilisée pour le calcul de la TVA. La colonne 3 sert pour le calcul de la TBS: il s'agit des achats sur lesquels on a déjà payé une taxe. La colonne 4 n'est utilisée dans aucun des deux cas, car c'est en réalité le prix d'achat de tous les composants. La colonne 5 représente le prix de vente.

Si nous gardons cet exemple, lorsque l'acier est acheté à l'acierie, la facture indique une taxe de 5,556\$, et le montant total des achats taxés atteint 75,000\$. Maintenant, lorsqu'il achète d'autres composants à un fabricant étranger, vous pouvez vous demander pourquoi le prix d'achat ne figure pas dans la colonne des achats taxés. C'est tout simplement parce qu'il achète les autres composants à un fabricant étranger et que la facture arrive sans qu'une taxe y soit ajoutée. Le fabricant d'appareils ménagers doit faire un autre achat, à savoir un achat de services de douane ou de taxe de vente auprès d'un courtier, et il enverra ce montant de 1,852\$ au courtier.

Les salaires et les avantages sociaux des employés: cela fait partie de la valeur ajoutée et n'entre pas en compte dans l'équation.

Les machines: il achète une machine pour un montant de 60,000\$ taxe incluse. On aurait 4,444\$, et ce montant figurerait dans la colonne des taxes payées.

La publicité est. . .

Le président: Une dépense à l'étranger.

M. Friedman: Oui, la publicité est une dépense à l'étranger. Les intérêts ne donnent pas droit à un crédit, dans le cadre des propositions actuelles, et ne figureraient donc que dans le prix d'achat.

Avec un système simple, si vous regardez la colonne, l'idéal consisterait à prendre 8/108 du montant des achats de 235,000\$. Vous ne pouvez pas le faire parce qu'il y a les intérêts, les frais de publicité à l'étranger, les salaires, les autres composants achetés à l'étranger.

Si vous passez maintenant à la page 2-5, vous avez là les deux méthodes de calcul de la taxe. Regardons tout d'abord la TBS ou méthode soustractive, et vous prenez le bas de la colonne 5 qui donne un prix de vente de 325,000\$. Les ventes aux États-Unis n'entrent pas dans l'équation.

Le président: Elles ne figurent pas en haut?

M. Friedman: Si. Vous enlevez les achats taxables, qui sont l'acierie et les machines—c'est-à-dire 135,000\$—et la taxe incorporée est de 8/108, ce qui fait 24,074\$ sur les ventes. Pour les achats, cela donne exactement 10,000\$. La différence nette est de 14,074\$. Vous dites alors: «Attendez une seconde, j'ai payé des taxes à la frontière». Vous avez donc un compte distinct, qui tient compte de la taxe que vous pourriez avoir payée à votre courtier en douanes à la frontière, et c'est le montant de 1,852\$, qui est payé à la frontière et qui vous donne une taxe nette à payer de 12,222\$. Dans cet exemple de calcul. . .

[Texte]

[Traduction]

• 1130

Mr. Minaker: Before you leave that, what happens if you are manufacturing this in Montreal and you clear the border at Windsor? What about the transportation costs in Canada to get your product from your point of manufacture to the point of entry in the United States? What are you going to do with that?

Mr. Friedman: We will talk about it. I do not want to confuse the issue, but this afternoon we are going to talk about transportation deductions and what is taxable and what is not. That whole area is complex and I think it would at this point probably complicate it beyond—

Mr. Minaker: Okay, because that is my first thought, you could get into a real problem coming both ways. In other words, if you are importing something—

Mr. Friedman: The problems may not be that difficult to overcome, but we have a whole module on transportation. I apologize for cutting it short, but I think you have to be able to understand the simple concepts before you can build on top of that.

Mr. Minaker: Okay.

Mr. Friedman: But to a manufacturer, if transportation were taxed, he would get a credit for it in this formula.

Now, in the VAT computation example all you take is the tax collected on sales in Canada, which is per the invoices. You had sales of \$300,926, plus \$24,074—that is on the first line on page 2-4—and the input tax credit is simply all of the taxes which you collected. It is in column two on page 2-4, \$11,852 gets deducted from tax collected, the net liability is \$12,222. And the answer is the same both ways.

I guess I was second-guessing Mr. Blenkarn, and I really addressed the last sentence, which is underlined on that page on page 2-5, to him: "Tax relief only granted where tax has actually been paid on purchases". I think there is a suggestion that if you have a purchase then you can assume it has been taxed and therefore you can deduct it and you can be ahead of the game. But that is not the case. The only way you can deduct a purchase under the GST computation example is if it has clearly been taxed. If the tax is buried, then the invoice would say; the invoice which you must retain—in the U.K. it is for six years. The invoice must show that this purchase was tax-paid. If it does not show it, if a retailer or a tax professional or somebody says disbursements of so many dollars and that is something that he made up in his head, that does not become a deduction. So if you have purchases which have not been taxed then you can not get a deduction for the implied tax in it.

Are there any questions? The whole area, once you accumulate taxes or tax purchases, is not complicated, at

M. Minaker: Avant de passer à autre chose, qu'arrive-t-il si votre entreprise de fabrication se trouve à Montréal et si vous passez la frontière à Windsor? Qu'en est-il des frais de transport au Canada pour transporter votre produit du lieu de fabrication jusqu'au point d'entrée aux États-Unis? Qu'en faites-vous?

M. Friedman: Nous en parlerons. Je ne veux pas créer de confusion sur cette question, mais cet après-midi, nous parlerons des déductions pour transport et de ce qui est taxable ou non. C'est une question très compliquée, et je pense qu'à l'heure actuelle cela ne pourrait que compliquer les choses. . .

M. Minaker: Très bien, cette question m'est venue à l'esprit, car on pourrait être confrontés à un grave problème dans les deux sens. Autrement dit, si vous importez quelque chose. . .

M. Friedman: Les problèmes ne sont peut-être pas aussi difficiles à surmonter, mais nous avons tout un module qui parle des transports. Je regrette d'être aussi brutal, mais je pense que vous devez tout d'abord comprendre les concepts simples avant de pouvoir aller plus loin.

M. Minaker: D'accord.

M. Friedman: Mais pour un fabricant, si le transport est imposé, il recevra un crédit dans le cadre de cette formule.

Maintenant, dans l'exemple du calcul de la TVA, tout ce que vous prenez, ce sont les taxes perçues sur les ventes au Canada, selon les factures. Vous avez des ventes de 300,926\$, plus 24,074\$—c'est à la première ligne de la page 2-4—et le crédit de taxe sur les intrants représente simplement toutes les taxes que vous avez perçues. Regardez dans la colonne 2 à la page 2-4, on déduit 11,852\$ des taxes perçues, ce qui donne une taxe nette à payer de 12,222\$. Et le résultat est le même dans les deux cas.

Je crois que je suis allé au-devant de M. Blenkarn et je me référais en réalité à la dernière phrase qui est soulignée à la page 2-5: «Un allègement est consenti uniquement lorsque la taxe a effectivement été payée sur les achats» Cela pourrait laisser sous-entendre que si vous avez un achat, vous pouvez supposer qu'il a été taxé et donc le déduire. Vous pouvez prendre de l'avance. Mais tel n'est pas le cas. Le seul moyen de déduire un achat dans l'exemple de calcul de la TBS se présente lorsqu'il a bel et bien été taxé. Si la taxe est cachée, la facture le dira, facture que vous devez garder—pendant six ans au Royaume-Uni. La facture doit indiquer que cet achat est net de taxe. Si la facture ne le mentionne pas et si un détaillant ou un fiscaliste ou quelqu'un d'autre déclare des dépôts déboursés de tant de dollars, qui n'existent que dans sa tête, ce n'est pas une déduction. Si vous effectuez des achats qui n'ont pas été taxés, vous ne pouvez pas obtenir une déduction pour la taxe implicite.

Y-a-t-il des questions? Une fois que vous additionnez les taxes ou les achats taxés, toute la question n'est pas

[Text]

least the basics of it. But I think you have to be comfortable with the concepts.

Mr. Minaker: Can you elaborate on the interest from financial institutions? Would that be proportionate to the sales? Or how would you work that out?

Mr. Friedman: No, the actual interest expense that they had during the period. And all I am saying is that is not there. Right now, as the proposal stands, any buried VAT or GST within the interest expense would not be creditable to the organization.

Mr. Minaker: I can see where once an invoice is placed, at say the final stage of a program of events, the final person could have maybe 90 days waiting for payments and would be billed immediately for the tax, on your basis, every 30 days.

• 1135

Mr. Friedman: If you have net payments to the government the credit mechanism gets you relief almost instantly, because you have taken money in and therefore you can use some of that money to pay yourself back for the tax on purchases.

Mr. Minaker: But some of the most guilty people of the 90 days or 120 days are Crown-owned corporations. I used to be in the business, so I know. It could be a \$2 million project and you get progress payments which are delayed by 90 days, and then also there are holdbacks in some of these things until they are satisfied. You could end up having to bridge finance the taxing that you people would oppose immediately.

Mr. Friedman: There is a provision to shorten the period—and we will talk about reporting periods in the next section—down to one month. In some of the European countries there is provision to get it down to one week so you can apply to the government and say, for the next five years I am building a \$500 million plant and I am not going to have any taxable sales, but I am buying equipment at the rate of \$10 million a week, and that equipment is costing me \$800,000 in taxes a week and I would like to have that money back right now. In situations like that, in some countries they are down to a week.

The assumption too in those cases is you have to pay the invoice as soon as you get it from your supplier. So there is also implied a 30-day, a 60-day, a 90-day period in which you have to pay your supplier for those goods. But there will be provision to allow you to shorten the reporting period down to one month where you are always in a credit position.

Mr. Minaker: I am talking about somebody trying to get his payments collected and it takes 90 days. He can get credit immediately from you as he purchases these things,

[Translation]

compliquée, du moins au départ. Vous devez cependant vous sentir à l'aise avec les concepts.

M. Minaker: Pouvez-vous nous parler des intérêts versés aux établissements financiers? Seraient-ils proportionnels aux ventes? Ou comment feriez-vous le calcul?

M. Friedman: Non, il s'agit des frais d'intérêt réels encourus pendant la période, et les intérêts n'y figurent pas. À l'heure actuelle, dans le cadre de la proposition, une TVA ou TBS cachée dans les frais d'intérêt ne donnerait pas droit à un crédit à l'entreprise.

M. Minaker: Prenons le cas d'une facture qui se trouve disons, au dernier stade d'une série de transactions; la dernière personne pourrait attendre jusqu'à 90 jours pour obtenir le paiement et recevrait une facture immédiate pour la taxe, selon votre calcul, tous les 30 jours.

M. Friedman: Si vous effectuez des versements nets au gouvernement, le mécanisme des crédits vous offre presque instantanément un allègement, car vous avez reçu l'argent et vous pouvez donc en utiliser une partie pour vous rembourser pour la taxe sur les achats.

M. Minaker: Mais certains des plus grands coupables pour les 90 ou 120 jours sont des Sociétés de la Couronne. J'étais dans le métier, je sais donc de quoi je parle. Il pourrait s'agir d'un projet de 2 millions de dollars pour lequel vous recevez des paiements périodiques, qui sont retardés de 90 jours, et il y a encore en plus des retenues sur ces montants jusqu'à ce que le client soit pleinement satisfait. On peut se retrouver obligé de trouver un financement intérimaire pour payer les taxes que vous imposez immédiatement.

M. Friedman: Il existe une clause pour raccourcir la période à un mois—et nous parlerons des périodes de déclaration dans la prochaine section. Dans certains pays européens, une clause permet de ramener le délai à une semaine, si bien que vous pouvez faire une demande au gouvernement et lui dire: pendant les cinq prochaines années, je construis une usine de 500 millions de dollars et je n'aurai aucune vente taxable, mais j'achète du matériel à raison de 10 millions de dollars par semaine, et ce matériel me coûte 800,000\$ en taxe par semaine; j'aimerais obtenir immédiatement un remboursement de cet argent. Dans des situations de ce genre, les délais sont ramenés à une semaine dans certains pays.

Dans ces cas, on suppose également que vous devez payer la facture dès que vous la recevez de votre fournisseur. Il y a donc également une période implicite de 30, 60, 90 jours pour payer ces biens à votre fournisseur. Mais il y aura une clause pour vous permettre de ramener la période de déclaration à un mois lorsque vous êtes déjà créancier.

M. Minaker: Je parle de quelqu'un qui essaie de récupérer son argent, et cela prend 90 jours. Il peut obtenir de vous un crédit immédiat lorsqu'il achète ses

[Texte]

but once he invoices, you will want the money within 30 days.

Mr. Friedman: No, within the quarter—generally every three months on a quarterly basis.

Mr. Minaker: Oh, you are going to go every three months. Okay.

Mr. Friedman: The one-month option is available in those situations where you are in a credit position, where you want the government to give you money back. As well there is the provision to report on a monthly basis if your tax collections are more than \$6 million a year. We will get into that.

The Chairman: National sales tax.

Mr. Friedman: I am going to rest my voice and let Peter carry on from here.

Mr. Wood: Andy has taken us through GST, or goods and services tax, and a value added tax, and we found that the bottom line is the same, that they both end up with the same result: that there is a tax on the final consumption. The difference is in the mechanics. In the goods and services tax there is no invoice requirement, whereas under a VAT there is an invoice requirement. For instance, in all of Europe a VAT is used and the government says that you must issue a tax invoice, that it must look like this and have this number on, and so on, if the next person in the chain is to get a credit. The invoice requirement is the key difference.

I am going to look at the third option that is discussed in the paper, still a form of multi-staged sales tax, and that is the national sales tax. Many of the criticisms that can be levied against the current federal sales tax can also be levied against current provincial sales taxes. For instance, provincial sales taxes are levied to a great extent on business inputs. What that means, of course, is those indirect taxes are buried in our exports and make us less competitive and so on on the export side. To maximize the benefits of reform, the ideal situation would be one where we could combine the federal and provincial regimes into one tax that fully relieved business inputs and taxed only a final domestic consumption.

Under this kind of system, if it could be agreed to, the rate applicable in any province would be the combination of a single, uniform federal rate and a particular rate set independently by each provincial government. So within a province it would be one rate, a combination of the two rates, but it could differ between provinces. The tax would also operate on the destination principle.

[Traduction]

biens, mais une fois qu'il envoie la facture, vous voudrez l'argent dans les 30 jours.

M. Friedman: Non, au cours du trimestre—généralement tous les trois mois, sur une base trimestrielle.

M. Minaker: Ou vous le ferez tous les trois mois. Très bien.

M. Friedman: L'option d'un mois est possible lorsque vous vous trouvez dans une situation créditrice et lorsque vous voulez obtenir un remboursement du gouvernement. Il existe également une clause pour faire une déclaration tous les mois si vos recouvrements de taxe sont supérieurs à 6 millions de dollars par an. Nous y reviendrons.

Le président: La taxe de vente nationale.

M. Friedman: Je vais me reposer un peu les cordes vocales et laisser la parole à Peter.

M. Wood: Andy vous a parlé de la TBS, ou taxe sur les biens et services, et de la taxe à la valeur ajoutée, et nous avons constaté que le résultat est le même dans les deux cas: c'est une taxe sur la consommation finale. La différence se situe dans les mécanismes. Dans le cas de la taxe sur les biens et services, je n'ai pas besoin de facture, tandis que dans le cas de la TVA il faut des factures. Par exemple, la TVA est utilisée partout en Europe, et le gouvernement déclare qu'il faut émettre une facture de taxe, qu'elle doit être présentée de telle façon et comporter tel numéro etc., si la personne suivante dans la chaîne veut obtenir un crédit. La différence fondamentale se situe dans les factures.

Je vais aborder la troisième option qui est présentée dans le document et qui constitue toujours une forme de taxe de vente multi-stades, à savoir la taxe de vente nationale. Bon nombre des critiques que l'on peut formuler à l'encontre de la taxe de vente fédérale actuelle peuvent également l'être contre les taxes de vente provinciales actuelles. Par exemple, les taxes de vente provinciales sont surtout imposées sur les intrants d'entreprise. Cela signifie évidemment que les taxes indirectes sont cachées dans nos exportations et nous rendent moins concurrentiels sur le marché des exportations. Pour tirer le profit maximum de la réforme, la situation idéale consisterait à amalgamer les taxes fédérales et provinciales dans une seule taxe permettant de dégrèver intégralement les intrants d'entreprise et de taxer uniquement la consommation finale au Canada.

Si l'on pouvait s'entendre sur un système de ce genre, le taux applicable dans une province quelconque serait la somme d'un taux fédéral uniforme unique et d'un taux particulier fixé indépendamment par chaque gouvernement provincial. Au sein d'une province, on aurait donc un taux qui serait une combinaison des deux taux, mais ce taux pourrait différer d'une province à l'autre. La taxe s'appliquerait également selon le principe de la destination.

[Text]

[Translation]

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So if it were taxed, for instance, in British Columbia and came to Ontario, there would be a credit for those taxes that were collected in British Columbia, and the rates applicable in Ontario would be applied. So the tax that would ultimately apply would be the tax applicable where that consumer is resident, where he is consuming, and that is because prior to that there would be credits for both the provincial element and the federal element.

Because there would be tax at two levels of government, it would be most important that there be a common tax base. It would probably be unworkable if there was not substantially a common tax base. It would also be very important that there be only a single federal rate and a single rate within each province, instead of multiple rates.

Mr. Minaker: Are you talking right across Canada?

Mr. Wood: No, each province could set its own rate, but within the province we would not want multiple rates; that would make it very difficult for the businessmen.

Mr. Friedman: Before we go on any further, it is also important to realize that with the national sales taxes, as far as the papers are concerned, you no longer have the choice between a VAT and a GST; it must be a VAT as far as the papers go. So you would now have a credit invoice method.

Mr. Wood: So they must issue an invoice.

Mr. Cassidy: You cannot just simply do it through your normal accounting—is that right?

Mr. Friedman: Well, as we covered before, you cannot do either through your normal accounting procedures, but here the choice is taken away and they say you must use a credit invoice method.

Mr. Weyman: We still have a combined tax-included sale though at the retail level.

Mr. Friedman: Yes.

Mr. Wood: Well that is a question as well. A number of observers feel you probably have to segregate the provincial element, but you could have the federal element buried to make it. . .

The Chairman: Wait a minute. Are you saying that you have two separate taxes in one?

Mr. Wood: Yes.

The Chairman: Why would you not combine them and then divide the money in proportion to the receipts, on a federal-provincial administration basis? Why would the taxpayer, in other words the store, remit two different taxes to two different sources? Surely to God you could not expect a retailer to divide the tax and pay some to the province and some to the feds.

Ainsi, si une taxe était perçue, par exemple, en Colombie-Britannique avant le transport en Ontario, il y aurait un crédit pour les taxes perçues en Colombie-Britannique, et les taux valables en Ontario seraient appliqués. Ainsi, la taxe effectivement appliquée serait celle qui s'appliquerait là où le consommateur réside, où il consomme: en effet avant cela il y aurait des crédits pour l'élément provincial et l'élément fédéral.

Parce qu'il y aurait une taxe aux deux paliers de gouvernement, il serait très important qu'il y ait une assiette commune. Ce ne serait probablement pas possible à moins qu'il y ait effectivement une assiette commune. Il serait aussi très important qu'il n'y ait qu'un seul taux fédéral et un seul taux à l'intérieur de chaque province au lieu de taux multiples.

Mr. Minaker: Voulez-vous dire d'un bout à l'autre du pays?

M. Wood: Non, chaque province pourrait établir son propre taux, mais il ne faudrait pas qu'il y ait des taux multiples à l'intérieur de la province parce que cela compliquerait trop les choses pour les hommes d'affaires.

M. Friedman: Avant d'aller plus loin, il est aussi important de se rendre compte que, dans le système de taxe de vente nationale prévu dans les documents, il n'y a plus de choix entre une TVA et une TBS: Il faudrait que ce soit une TVA. Les factures seraient nécessaires pour le crédit.

M. Wood: Il faudrait donc émettre une facture.

M. Cassidy: On ne peut tout simplement pas le faire par les méthodes de comptabilité habituelles, n'est-ce pas?

M. Friedman: Comme il en a déjà été question, on ne peut faire ni l'un ni l'autre par les méthodes de comptabilité habituelles, mais il n'y a plus de choix ici, et il faut se servir d'une méthode où les factures sont nécessaires pour le crédit.

M. Weyman: Le prix de vente au détail comprendrait toujours les deux taxes?

M. Friedman: Oui.

M. Wood: C'est une autre question. Un certain nombre d'observateurs estiment qu'il faudrait probablement séparer l'élément provincial, mais on pourrait combiner l'élément fédéral pour en faire. . .

Le président: Un instant. Nous dites-vous qu'il y aurait deux taxes distinctes en une?

M. Wood: Oui.

Le président: Pourquoi ne les combineriez-vous pas pour ensuite diviser l'argent en proportion des recettes suivant le taux convenu entre le gouvernement fédéral et la province? Pourquoi le contribuable, autrement dit, le magasin, devrait-il remettre deux taxes différentes à deux sources différentes? On ne pourrait assurément pas s'attendre qu'un détaillant divise la taxe et en paye une partie à la province et l'autre au gouvernement fédéral.

[Texte]

Mr. Wood: That is what he does now. There are some retailers, for instance printers, who collect both federal and provincial tax and they split it up. The suggestion is that there be consolidation of the tax administrations; therefore he would write one cheque to one authority, and that authority would split the money up.

Mr. Cassidy: But let us suppose I go in and buy a package of razor blades in the store for \$1.50. Are you saying that the provincial tax would have to be shown but that the federal tax could be hidden? Can they both not be hidden if part of the purpose is to put the veil over the eyes of the consumer so they do not necessarily know that they are being hit?

Mr. Wood: Well I think for a couple of reasons the provincial element would have to be shown separately.

The Chairman: Why?

Mr. Wood: First of all, if the provinces want to impose that element themselves because they want to set the rate and so on, their authority is only to impose a direct tax on the consumer so that they would have to show that element separately, just like in a retail sales tax now. When you and I walk into the store, we are the taxpayers and the storeowner is just collecting it on behalf of the government from us. Therefore we have a right to know how much tax they are collecting on the government's behalf. To the extent that the province is still imposing a direct tax, the net element would have to be shown separately. That is the first reason.

Secondly, to the extent that you have interprovincial transactions, and the business is going to want to take a deduction for the federal element and the provincial element, if there is a combined rate, it is much more difficult for them to sort out how much of a credit they get because they will have to know exactly what province it comes from. If it is a segregated rate it is much easier for the business, from the bookkeeping standpoint, to compute the amount of the deduction it is entitled to.

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Mr. Cassidy: I do not understand that at all. Does that mean that the tax calculation has to follow every transaction, or does it mean that to the end of the year you have to have a shoe box full of invoices, from which you can calculate the total amount of tax paid, and a shoe box full of sales receipts, from which you can indicate the total amount of tax which has been levied on consumers on the next level of purchases?

Mr. Wood: As Andy has indicated, the option suggested in the paper is that once you have a national sales tax you have to have an invoice requirement, so that the tax is attached to each invoice. Now, you can still have your shoe boxes. You can add up the invoices on the sales side

[Traduction]

M. Wood: C'est ce qu'il fait à l'heure actuelle. Il y a des détaillants, les imprimeurs, par exemple, qui perçoivent une taxe fédérale et une taxe provinciale et divisent ensuite le montant. On voudrait consolider les deux de façon qu'il n'ait qu'un chèque à envoyer à un palier, où le montant serait divisé.

M. Cassidy: Supposons que j'achète un paquet de lames de rasoir dans un magasin pour 1.50\$. Nous dites-vous qu'il faudrait que le montant de la taxe provinciale soit indiqué, mais pas celui de la taxe fédérale? Ne pourrait-on pas inclure les deux dans le prix si l'on veut en partie cacher la chose au consommateur pour qu'il ne sache pas nécessairement qu'il paie ces taxes?

M. Wood: En fait, je pense pour un certain nombre de raisons qu'il faudrait que l'élément provincial soit indiqué séparément.

Le président: Pourquoi?

M. Wood: Premièrement, si les provinces veulent imposer cet élément elles-mêmes parce qu'elles veulent établir le taux et ainsi de suite, elles n'ont le pouvoir que d'imposer une taxe directe au consommateur de sorte qu'elles seraient obligées d'indiquer cet élément séparément, tout pour les taxes de vente au détail à l'heure actuelle. Quand nous entrons dans un magasin, nous sommes les contribuables, et le propriétaire du magasin ne se trouve qu'à collecter auprès de nous la taxe au nom du gouvernement. Nous avons donc le droit de savoir le montant de la taxe qu'il perçoit au nom du gouvernement. Dans la mesure où la province impose encore une taxe directe, il faudrait que l'élément net soit indiqué séparément. C'est la première raison.

Deuxièmement, dans la mesure où il y a des transactions interprovinciales et où l'entreprise va vouloir prendre une déduction pour l'élément fédéral et l'élément provincial, s'il y a un taux combiné, il lui sera beaucoup plus difficile de déterminer le crédit auquel elle a droit parce qu'il faudra qu'elle sache exactement de quelle province vient le produit. Si c'est un taux séparé, il est beaucoup plus facile à l'entreprise de déterminer le montant de la déduction à laquelle elle a droit.

M. Cassidy: Je ne comprends pas du tout. Cela veut-il dire que le calcul de la taxe devra suivre chaque transaction ou qu'il faudra garder jusqu'à la fin de l'année une boîte pleine de factures à partir de laquelle on pourra calculer le montant total de taxe payé et une boîte pleine de reçus de ventes à partir de laquelle on pourra déterminer le montant total de taxe perçu auprès des consommateurs au palier d'achat suivant?

M. Wood: Comme l'a dit Andy, d'après ce qui est prévu dans le document, une fois qu'une taxe de vente nationale est établie, il faut des factures, et la taxe est attachée à chaque facture. Vous pouvez encore avoir vos boîtes. Vous pouvez additionner les factures du point de

[Text]

or the purchases side in any period that is required, monthly, quarterly, or annually in some cases.

Mr. Cassidy: One of the fears that has been expressed is that at the end of the year—I think we all think of the archetypical small business person who does work with shoe boxes—they then not only have to unravel the shoe box, but they also have to follow every transaction through. What you are saying is that a VAT does not require that each transaction be carried through. Essentially, a VAT requires a piece of paper for each transaction.

Mr. Wood: That is true.

Mr. Cassidy: This allows you to sum up the calculations of tax paid and of tax charged.

Mr. Wood: Yes, and it would be the same thing with the national sales tax. There would be an invoice requirement like a VAT and you could sum up those invoices.

Mr. Cassidy: So really they are not quite as different as people have suggested, because with the national sales tax you were just simply summing up purchases and summing up sales and then applying the flat rate of national tax to each. That is not a hell of a lot different from adding up the tax portion of your invoices and adding up the tax portion of your sales receipts.

Mr. Friedman: Let us take your example further and say that you are a businessman in Manitoba who takes a business trip across the country. You have expenditures across Canada and you are going to have to keep track of your purchases by province because they are going to have different rates. So the applicable province, which has collected the tax from this businessman's suppliers, is basically going to have to give that money back.

Mr. Cassidy: So what you are saying is that when you come to actually reimbursing on cross-provincial-border transactions... As far as the businesses are concerned, they simply receive a credit. They have collected \$100,000 worth of tax, but they have against that \$50,000 worth of credits, and therefore the net amount that they remit is \$50,000.

Mr. Friedman: Yes, but they have to identify the credit by the province in which the credit arose.

Mr. Cassidy: So either they or the unified tax administration has to allocate back to the respective provinces the credits for which they are liable.

Mr. Friedman: Yes, because the respective province, in the case of a hotel in British Columbia, would have collected 8% of his hotel stay. Now, in order to ensure that it is British Columbia that pays back that \$8, when the government has to give the businessman his credit, the two must be matched.

Mr. Cassidy: Now, any system of national tax, where you have a credit system, would require that a businessman and a businesswoman who is taking a

[Translation]

vue des ventes ou des achats au cours de toute période requise, mensuelle, trimestrielle ou annuelle dans certains cas.

M. Cassidy: Une des craintes qu'on a exprimées est qu'à la fin de l'année le petit commerçant typique qui travaille avec des boîtes serait alors obligé non seulement de démêler le tout, mais aussi de suivre chaque transaction. Vous dites qu'avec une TVA il n'est pas nécessaire de suivre chaque transaction. Essentiellement, une TVA requiert un bout de papier pour chaque transaction.

M. Wood: C'est exact.

M. Cassidy: Cela vous permet de calculer les montants de la taxe payée et de la taxe perçue.

M. Wood: Oui, et ce serait la même chose avec la taxe de vente nationale. Il y aurait une facture comme pour une TVA et on pourrait additionner les factures.

M. Cassidy: Elles ne sont donc pas en fait aussi différentes que l'ont laissé entendre certains parce, avec la taxe de vente nationale, on additionnait tout simplement les achats et les ventes et on appliquait ensuite à chacun le taux fixe de taxe nationale. Ce n'est pas bien différent d'additionner la partie de taxe des factures et la partie de taxe des reçus de vente.

M. Friedman: Poussons votre exemple plus loin dans le cas d'un homme d'affaires du Manitoba qui décide de voyager pour affaires au pays, par exemple. Il aura des dépenses partout au Canada et il devra tenir compte de ses achats par provinces parce qu'elles auront des taux différents. La province qui aura perçu la taxe auprès des fournisseurs de cet homme d'affaires sera dans le fond obligée de retourner l'argent.

M. Cassidy: Vous dites donc que, pour ce qui est du remboursement dans le cadre des transactions effectuées dans une autre province les entreprises ne font que recevoir un crédit. Elles ont perçu 100,000\$ de taxe, mais elles ont des crédits de 50,000\$ et elles ont donc à remettre un montant net de 50,000\$.

M. Friedman: Oui, mais elles doivent identifier le crédit par la province d'où il vient.

M. Cassidy: Ainsi, elles ou l'administration centrale seront obligées de déterminer les crédits que les différentes provinces auront à payer.

M. Friedman: Oui, parce que, dans le cas d'un hôtel de Colombie-Britannique, la province aurait perçu 8 p. 100 de son séjour à l'hôtel. Pour que ce soit bien la Colombie-Britannique qui rembourse 8\$, quand le gouvernement doit donner à l'homme d'affaires son crédit, il faut qu'il y ait conciliation des deux.

M. Cassidy: Tout système de taxe nationale où il y a un système de crédit obligerait l'homme ou la femme d'affaires qui se rend ailleurs au Canada à garder ses reçus

[Texte]

national trip keep their receipts in a substantially more detailed fashion than they do now. Is that correct?

Mr. Friedman: Yes.

Mr. Cassidy: Now, for example, they can simply take a per diem and then use that for taxis and incidentals and that kind of thing. But in order to recover the tax portion of that, which may be 8% or 12%, they are going to actually have to have the taxi receipt—right down to the receipt for *The Globe and Mail* they buy in Vancouver. Is that right?

Mr. Wood: You could develop a system with some kind of *de minimis* rule as there is in the U.K. For instance, you might not need a receipt for *The Globe and Mail*. You could use a per diem and then there would be some kind of allocation based on sales or something. This would make it easier for the bookkeeping.

Mr. Friedman: I think what you have to be worried about, and it is probably more of an interprovincial concern, is that somebody does not say Saskatchewan collected all the taxes and Ontario is giving back all the credits because it is Ontario businessmen who are visiting Saskatchewan. That is what you want to avoid. You want to be able to match the payments with the subsequent credits.

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Mr. Minaker: Further on this, you are saying that if I decide to leave Winnipeg to travel to B.C. on a sales trip, when I am in Saskatchewan I have to keep track of the provincial sales tax on a gallon of gasoline and the federal sales tax that will be applied. Then if I go to Alberta, I have to find out what the sales tax is in Alberta, if they do apply one to the gas, and also the federal tax, which would be uniform; and the same thing in B.C. And then I have to keep these all separate?

Mr. Wood: That is correct. That is why there is an invoice requirement when there is a national sales tax.

Mr. Minaker: It will not fly. Are we going to charge excise tax as well, or is that going?

Mr. Friedman: The papers are silent on that. That is one of the concerns of some of the self-interest groups.

The Chairman: Can you have a national sales tax without having one rate for the whole country?

Mr. Wood: I am sure it can be done.

The Chairman: Then you pay each province its share of the tax on a population basis or something of that nature.

Mr. Friedman: I think something approaching that is done in West Germany—

The Chairman: In other words, once you start trying to create a separate rate and a separate situation for every province, you defeat the concept of a national tax. You make it so God-damned complicated nobody will touch it.

[Traduction]

de façon beaucoup plus détaillée qu'à l'heure actuelle. Est-ce exact?

M. Friedman: Oui.

M. Cassidy: A l'heure actuelle, par exemple, ils peuvent simplement prendre un certain montant par jour et s'en servir pour les taxis et dépenses courantes et ainsi de suite. Mais, pour pouvoir en récupérer la partie qui représente la taxe, qui peut être de 8 p. 100 ou 12 p. 100, ils vont être obligés d'avoir le reçu du taxi, le reçu pour le journal qu'ils ont acheté à Vancouver. Est-ce exact?

M. Wood: On pourrait établir une sorte de règle *de minimis* comme il y en a au Royaume-Uni. Par exemple, il pourrait ne pas être nécessaire de garder un reçu pour un journal. On pourrait prendre un certain montant quotidien, qui serait ensuite réparti selon les ventes ou un autre critère. Cela serait plus facile pour la comptabilité.

M. Friedman: À mon avis, l'important, et c'est probablement plus une préoccupation interprovinciale, c'est que personne ne dise que la Saskatchewan a perçu toutes les taxes et que l'Ontario rembourse tous les crédits parce que ce sont des hommes d'affaires de l'Ontario qui visitent la Saskatchewan. C'est ce qu'il faut éviter. Il faut pouvoir concilier les paiements avec les crédits subséquents.

M. Minaker: Dans la même veine, si je décide de partir de Winnipeg pour aller faire des achats en Colombie-Britannique, quand je suis en Saskatchewan, je dois tenir compte de la taxe de vente provinciale sur le gallon d'essence et de la taxe de vente fédérale perçue. Puis, si je me rends en Alberta, je dois me renseigner pour savoir quelle est la taxe de vente sur l'essence en Alberta, s'il y en a une, ainsi que la taxe fédérale, qui serait uniforme, et la même chose en Colombie-Britannique. Et je dois garder tous ces éléments séparés?

M. Wood: C'est exact. C'est pourquoi il faut des factures quand il y a une taxe de vente nationale.

M. Minaker: C'est bien compliqué. Allons-nous aussi percevoir une taxe d'accise ou cela va-t-il disparaître?

M. Friedman: Les documents n'en parlent pas. C'est un des soucis de certains groupes.

Le président: Peut-on avoir une taxe de vente nationale sans avoir un seul taux pour tout le pays?

M. Wood: Je suis certain que ce serait possible.

Le président: On paierait alors à chaque province sa part de la taxe suivant sa population ou un critère de ce genre.

M. Friedman: Je pense que c'est un peu ce qui se fait en Allemagne de l'Ouest. . .

Le président: Autrement dit, dès qu'on essaie de créer un taux distinct et une situation distincte pour chaque province, on va à l'encontre de l'idée d'une taxe nationale. On rend la chose tellement compliquée que

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If the provinces are going to insist on separate rates and all the rest of it, it is just not going to fly.

Mr. Friedman: I have no argument with your statement, Mr. Chairman.

The Chairman: I take it then it is the consensus of the three of you that a national sales tax is not in the cards.

Mr. Friedman: I did not say that.

The Chairman: Unless there is a great deal of accommodation—Meech Lake times 10.

Mr. Friedman: As Peter Wood has said, if there are rules for the small businessman saying okay, you can claim credits, just claim them on a return and the government will take care of allocating it all among the provinces, then I think you can avoid a lot of the problems. But that has to be done. But if the small businessman has to keep track of every purchase across the country... and you have to keep track of all the sales by 10 provinces and 2 territories, so you would have 12 columns of sales and 12 columns of purchases.

Mr. Cassidy: If I am running a business in Ontario and I am selling to all the provinces, but my sales are to the wholesale and industrial level, then essentially all I have to do is to keep an eye out for sales that may sneak in and that may be for final consumers. But I am not troubled by sales tax rules in general. Is that correct?

Mr. Friedman: Yes, you are troubled. That is not correct. What happens with the tax payment and credit procedures is if you sell across the country, as you do now if you are withholding provincial sales tax, you are going to have to keep track of the rates across the country and collect those. Say your manufacturer is selling to a wholesaler in B.C., Saskatchewan, and Ontario; those three provinces. If you sell to B.C., you collect a national sales tax at the B.C. rate, Manitoba at the Manitoba rate, and Ontario at the Ontario rate. Then your customer is going to turn around and he is going to have to know which of his locations those goods were shipped to. He will see that on the invoice, and he can claim a credit for the tax you paid to that province.

Mr. Cassidy: The current situation, though, living with this archaic and anachronistic tax we have right now... if I am selling out of Ottawa now to my wholesale industrial customers, let us say in Newfoundland, Alberta, and B.C., basically provincial sales tax is not a concern for me now. Is that correct?

Mr. Wood: That is correct.

Mr. Friedman: It is not a concern unless it is a store fixture or whatever—

[Translation]

personne n'en voudra. Ce ne sera tout simplement pas possible si les provinces commencent à insister pour avoir des taux distincts et ainsi de suite.

M. Friedman: J'aurais tendance à le croire, monsieur le président.

Le président: Vous êtes tous d'accord, il est bien possible qu'il n'y ait pas de taxe de vente nationale.

M. Friedman: Je n'ai pas dit cela.

Le président: A moins qu'on ne fasse de grands efforts pour s'entendre: dix fois le lac Meech.

M. Friedman: Comme l'a dit Peter Wood, si le petit homme d'affaires pouvait simplement réclamer ses crédits sur une formule et que le gouvernement se chargeait de les répartir entre les provinces, je pense que cela pourrait éviter beaucoup de problèmes. Mais il faudrait le faire. Par contre, s'il doit tenir compte de chaque achat partout au pays... et s'il faut tenir compte de toutes les ventes dans dix provinces et deux territoires, alors il y aura douze colonnes de ventes et douze colonnes d'achats.

M. Cassidy: Si j'ai une entreprise en Ontario qui effectue des ventes dans toutes les provinces, mais que mes ventes sont au niveau du gros et de l'industrie, alors en fait je n'ai qu'à me soucier des ventes, qui pourraient à l'occasion être à des consommateurs finaux. Mais je n'ai pas à me soucier des règlements ayant trait à la taxe de vente en général. Est-ce exact?

M. Friedman: Si, vous avez à vous en soucier. Ce n'est pas exact. Ce qui se passe dans le cas des paiements et crédits de taxe, c'est que, si vous vendez ailleurs au pays, comme vous le savez, si vous retenez la taxe de vente provinciale, vous allez être obligé de tenir compte des taux ailleurs au pays et de les percevoir. Si votre fabricant vend à un grossiste de Colombie-Britannique, de Saskatchewan et d'Ontario, il doit percevoir une taxe de vente nationale au taux de la Colombie-Britannique en Colombie-Britannique, au taux du Manitoba au Manitoba et au taux de l'Ontario en Ontario. Puis le client va devoir à son tour savoir à quels endroits ces biens ont été expédiés. Ils va le voir sur la facture et il peut réclamer un crédit pour la taxe que le fabricant a payé à cette province.

M. Cassidy: A l'heure actuelle, toutefois, avec notre système archaïque et anacronique, si je vend à partir d'Ottawa à mes clients, industriels de gros de Terre-Neuve, d'Alberta et de Colombie-Britannique, par exemple, je n'ai essentiellement pas à me préoccuper de la taxe de vente provinciale. Est-ce exact?

M. Wood: C'est exact.

M. Friedman: Je n'ai pas à m'en soucier à moins que ce soit du matériel de magasin ou... .

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Mr. Wood: But even there, if his presence is only in Ontario and he is selling in other provinces he does not

M. Wood: Même là, si son entreprise est limitée à l'Ontario et qu'il vende dans d'autres provinces, il n'a pas

[Texte]

care. He is not worried about the tax administrations of the other provinces.

Mr. Friedman: So you do not have a place of business anywhere but in Ontario.

Mr. Cassidy: Right.

Mr. Friedman: Okay.

Mr. Cassidy: Now, if I sell a store fixture then to a store in British Columbia, do I have a competitive advantage over the supplier in Vancouver?

Mr. Friedman: No, because it is an honor system, and store fixtures are actually one where the cross-border concerns come in. The B.C. retailer who has bought the store fixtures has to remit on a self-supply basis the sales taxes. So he has to say: I bought a store fixture from an Ontario supplier without a place of business in British Columbia, and therefore I must remit 7% of the costs, plus there is also a transportation element in British Columbia.

Mr. Cassidy: But if it is bought from the Vancouver supplier, does the Vancouver supplier levy that tax?

Mr. Friedman: Yes, the Vancouver supplier would be required to levy the tax.

Mr. Cassidy: In practical terms, then, I should get into the store supply business from Ontario now, is that right?

Mr. Minaker: No, Alberta is the place.

Mr. Friedman: In practical terms, if you supply from Ontario into B.C., you would not be required to withhold sales tax as long as you did not have anything approaching a place of business in B.C. But there would still be a requirement on the part of the purchaser in B.C., as Peter has indicated before. It is, in fact, a direct tax on the consumer or user.

Mr. Cassidy: Although it is probably frequently avoided, they are nonetheless subject to add it to the price.

Mr. Friedman: Yes.

Mr. Wood: The first place they look is for out-of-province purchases or imports.

Mr. Cassidy: But with the proposal, though, since the tax is being levied on a destination basis, I would in fact have to levy the tax on the basis of the combined rate that prevailed in each province to which I was shipping. Is that right?

Mr. Wood: That is correct.

Mr. Cassidy: If I were doing a retail mail order business from Ontario right now, is that the case now, or when purchases are made by residents outside Ontario are those residents subject to the retail sales tax on an honour basis in their province?

Mr. Wood: They are subject to tax on the honour basis. Providing you had no presence in those other provinces,

[Traduction]

à s'en préoccuper. Il n'a pas à se soucier de la perception des taxes dans les autres provinces.

M. Friedman: Si vous n'avez pas de lieu d'affaires à l'extérieur de l'Ontario.

M. Cassidy: C'est exact.

M. Friedman: C'est bien cela.

M. Cassidy: Si je vends du matériel de magasin à un magasin de Colombie-Britannique, ai-je un avantage sur le fournisseur de Vancouver?

M. Friedman: Non, parce que c'est un régime de confiance, et le matériel de magasin est en fait touché. Le détaillant de Colombie-Britannique qui a acheté le matériel de magasin doit lui même remettre la taxe de vente. Il doit se dire: J'ai acheté du matériel de magasin à un fournisseur de l'Ontario qui n'est pas implanté en Colombie-Britannique, je dois donc remettre 7 p. 100 du prix, et il y a en outre un élément de transport en Colombie-Britannique.

M. Cassidy: Mais s'il l'achète au fournisseur de Vancouver, le fournisseur de Vancouver perçoit-il cette taxe?

M. Friedman: Oui, le fournisseur de Vancouver serait tenu de percevoir la taxe.

M. Cassidy: D'un point de vue pratique, alors, je devrais me lancer dans le commerce du matériel de magasin en Ontario à l'heure actuelle, n'est-ce pas?

M. Minaker: Non, en Alberta.

M. Friedman: D'un point de vue pratique, un commerçant de l'Ontario vendant en Colombie-Britannique ne serait pas tenu de percevoir une taxe de vente pourvu qu'il ne soit pas implanté en Colombie-Britannique. Mais l'acheteur de Colombie-Britannique est néanmoins tenu de faire ce qu'a dit Peter. C'est, en fait, une taxe directe au consommateur ou à l'utilisateur.

M. Cassidy: Même s'ils ne le font probablement que rarement, ils sont tenus de l'ajouter au prix.

M. Friedman: Oui.

M. Wood: La première chose qu'ils cherchent, ce sont des achats ou importations de l'extérieur de la province.

M. Cassidy: Mais avec la proposition, cependant, comme la taxe est perçue en fonction du point de destination, il faudrait que je perçoive la taxe suivant le taux combiné en vigueur dans chaque province où j'expédie mes produits. Est-ce exact?

M. Wood: C'est exact.

M. Cassidy: Si j'avais en Ontario à l'heure actuelle une petite entreprise de courrier, la situation serait-elle la même ou les résidents de l'extérieur de l'Ontario seraient-ils tenus sur l'honneur de payer eux-mêmes dans leur province la taxe de vente au détail sur leurs achats?

M. Wood: Ils sont tenus de payer eux-mêmes la taxe. Si vous n'avez pas de lieu de commerce dans ces autres

[Text]

you would have no legal obligation to collect the tax as a consumer.

Mr. Minaker: Not only that, but you can buy \$40 worth of goods a day from the United States duty-free or tax-free in the same way.

Mr. Friedman: It raises an important point. In theory or by law, when you as an Ontario resident come across any border and if you have purchased something in New York or in any country in the world, if you are going to consume it in Ontario you should be computing the tax on the fair value of whatever you have brought into the country or into the province and remitting that money to Ontario Revenue in Oshawa.

Mr. Minaker: And you do, do you not, Mike?

Mr. Cassidy: I admit it. With Sears, which has places of business in all 10 provinces, if you buy by mail order from Sears, they will in fact levy the provincial sales tax.

The Chairman: Sears has a place of business in each province, though.

Mr. Cassidy: If a mail order outfit has a place of business in the province then they have to levy tax.

The Chairman: The meeting is now adjourned.

AFTERNOON SITTING

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The Chairman: Pursuant to Standing Order 96(2), we are resuming consideration of the white paper and related documents on tax reform.

Mr. Friedman: I will give it back to Peter Wood to continue on page 2-6 on national sales tax.

Mr. Wood: I would like to quickly summarize where we have been over the past few sessions.

We looked at the general form of a multi-stage sales tax. We found that it was a series of collections and refunds until you got to the consumer level, in which case there was a collection and no refund.

We looked at the difference, and the important difference between exemptions, tax-free and zero rating, and we also had a look at the pre-variance of a multi-stage sales tax. We looked at the goods and services tax. We looked at VAT, and we looked at the national sales tax. We saw that the essential difference between them is the invoice requirement.

In the goods and services tax, there is really no invoice requirement. It is fairly broad based, it cannot accommodate too many exemptions, and the business just carries on as usual, using its own accounting records to support the payment to the government and its claim for refund.

[Translation]

provinces, vous n'êtes pas tenus par le droit de percevoir la taxe en tant que consommateur.

M. Minaker: Pas seulement cela, mais vous pouvez acheter 40\$ de marchandises par jour aux États-Unis sans payer de droit ou de taxe de la même façon.

M. Friedman: Cela soulève un point important. En théorie ou en droit, quand un résident de l'Ontario revient au pays, s'il a acheté quelque chose à New York ou dans un autre pays, s'il va le consommer en Ontario, il devrait calculer la taxe sur la juste valeur de ce qu'il a rapporté au pays ou dans la province et remettre ce montant à Revenu Ontario à Oshawa.

M. Minaker: Et vous le faites, n'est-ce pas, Mike?

M. Cassidy: Je le reconnais. Si vous achetez par courrier à Sears, qui est implanté dans les dix provinces, Sears percevra en fait la taxe de vente provinciale.

Le président: Mais Sears est implanté dans chaque province.

M. Cassidy: Si une entreprise de vente par courrier est implanté dans la province, elle doit percevoir la taxe.

Le président: La séance est ajournée.

SÉANCE DE L'APRÈS-MIDI

Le président: Conformément à l'article 96(2) du Règlement, nous reprenons l'étude du livre blanc et des documents connexes relatifs à la réforme fiscale.

M. Friedman: Je laisserai Peter Wood continuer à la page 2-6 sur la taxe de vente nationale.

M. Wood: J'aimerais récapituler brièvement les sujets que nous avons examinés au cours des dernières séances.

Nous avons examiné la forme générale d'une taxe de vente multi-stades. Nous avons appris que c'était une série de perceptions et remboursements jusqu'à ce que cela arrive au niveau du consommateur, où il y a une perception et pas de remboursement.

Nous avons examiné la différence importante entre les exemptions, la classification hors-taxe et le taux zéro, et nous avons aussi examiné la variance préalable d'une taxe de vente multi-stades. Nous avons examiné la taxe sur les biens et services, la TVA, ainsi que la taxe de vente nationale. Nous avons vu que la différence essentielle entre elles résidait dans l'obligation de produire les factures.

Dans le cas de la taxe sur les biens et services, les factures ne sont pas vraiment nécessaires. Elle a une assiette assez large, ne pourrait souffrir trop d'exemptions, et l'entreprise agit tout simplement comme d'habitude en se servant de ses propres documents de comptabilité pour établir le paiement à faire au gouvernement et sa réclamation de remboursement.

[Texte]

In the case of a VAT or a national sales tax, there is an invoice requirement introduced so that the business can keep track of the various rates and exemptions to determine what sort of credit it gets, and how much to collect on its sales side.

We were last looking at the national sales tax and having a fair discussion there. One other thing I should point out, it is possible to implement the tax without the participation of all provinces. In effect, a province that chose not to participate could be in the system at a zero rate, if you like. For instance, if Alberta decided not to join, the door could still be left open for it to join later.

If everyone agreed to a common base and the same uniform rate, if that were possible, it would be very simple, I guess the preferred approach from a practitioner's standpoint. The moment we introduce a different base or multiple rates, as we saw it becomes very complicated to track purchases and sales to obtain your credits with the various implicit provincial rates and to determine how much tax you have to remit on your sales side.

Are there any questions on that quick summary? Flipping to page 2-7, just a brief discussion of tax-extra versus tax-included pricing. As Andy said last night, probably in the provincial systems we get tax-extra pricing—the consumer always knows exactly what he pays. It has to be shown separately in the invoice, and most of the provincial legislation in fact requires it. In the current federal sales tax, there is no requirement to show the tax separately, and depending on the industry, the practice varies.

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In the case of a goods and services tax, there is nothing in the papers to suggest one would be precluded from showing the tax separately. We all think businesses will generally want to show the tax separately on their invoices when they are selling to businesses. However, when they are selling to consumers, they will probably want to bury it in the price to the consumers.

The Chairman: You have New Zealand here as being tax included. Do they also tax-include at the wholesale level, or only at the retail level?

Mr. Wood: There is really a choice of methods in New Zealand. If you are a very small business, you can just extract the tax from the invoice. I forget what the size test is, but for smaller businesses you can go tax-included, very much like the subtracted method you were talking about earlier this morning. You just add up your purchases and take your 11/111th of the purchases to extract the tax. However, that is an option only for small businesses, in New Zealand.

[Traduction]

Dans le cas d'une TVA ou d'une taxe de vente nationale, il faut que l'entreprise garde des factures de façon à tenir compte des divers taux et exemptions pour déterminer le montant de son crédit et les sommes à percevoir sur les ventes.

Nous étions enfin en train d'examiner la taxe de vente nationale. Un point à signaler à ce sujet, il est possible de mettre la taxe en oeuvre sans la participation de toutes les provinces. En fait, une province qui déciderait de ne pas participer pourrait se trouver dans le système à taux zéro, si vous voulez. Par exemple, si l'Alberta décidait de ne pas participer, elle pourrait toujours le faire plus tard.

Si tout le monde acceptait une assiette commune et un taux uniforme, si cela était possible, ce serait très simple et, j'imagine, la méthode préférée. Du moment qu'on introduit une base différente ou des taux multiples, comme nous l'avons vu, il devient très compliqué de tenir compte des achats et des ventes pour déterminer les crédits auxquels on a droit avec les divers taux provinciaux implicites et déterminer le montant de taxes à remettre sur les ventes.

Y a-t-il des questions au sujet de ce bref résumé? En tournant à la page 2-7, quelques explications sur l'établissement des prix avec taxe en sus et taxe incluse. Comme Andy l'a dit hier soir, les systèmes provinciaux sont probablement des systèmes de prix avec taxe en sus parce que le consommateur sait toujours exactement ce qu'il paie. Elle doit être indiquée séparément sur la facture; en fait, la plupart des lois provinciales l'exigent. Par contre, rien n'oblige le vendeur à indiquer séparément la taxe de vente fédérale actuelle, et la pratique varie selon le secteur de l'industrie.

Dans le cas d'une taxe sur les biens et services, rien dans les documents nous laisse entendre que le vendeur ne pourrait pas indiquer la taxe séparément. Nous pensons tous que les entreprises voudront généralement indiquer la taxe séparément sur leurs factures à d'autres entreprises. Par contre, quand elles vendront à des consommateurs, elles voudront probablement l'intégrer tout bonnement au prix de vente, sans l'indiquer.

Le président: Vous avez là la Nouvelle-Zélande, où la taxe est incluse dans le prix de vente. Les Néo-zélandais incluent-ils aussi la taxe dans ce prix pour la vente en gros, ou le font-ils seulement pour la vente au détail?

M. Wood: En Nouvelle-Zélande, le vendeur a vraiment le choix. Dans le cas d'une très petite entreprise, on extrait simplement le montant de taxe de la facture. Je ne me rappelle pas l'ordre de grandeur en question, mais dans le cas des petites entreprises, il est possible d'inclure la taxe dans le prix de vente, à peu près exactement comme dans la méthode de soustraction dont vous parliez plus tôt ce matin. On additionne simplement les achats, et puis on prend les 11/111^e du total pour extraire la taxe. Il reste que cette possibilité ne s'offre qu'aux petites entreprises, en Nouvelle-Zélande.

[Text]

In Europe certain of the countries actually preclude the disclosure separately of the tax at the consumer level, so it has to be hidden. In the U.K., it is optional. We are told by the U.K. authorities that when the tax was first introduced, people tended to show it separately at all levels, I presume to attribute any price increase to the government. But over the longer term, at the consumer level in fact, the tax has been buried, whereas at the intermediate stages between businesses, the tax is separate. There is probably an exception for very high priced goods, if one was buying a yacht, a car, or an airplane. In that case, even though it might be a consumer item, the tax would be shown separately.

Mr. Cassidy: May I pursue this then, partly because you said, as far as the provincial portion of a national sales tax is included, because of constitutional restrictions and the requirement that the provinces levy only direct taxes, that whatever happened, the provincial share of the tax would have to be shown.

Now I am getting somewhat different messages. It seems to me it would be possible as well to go either way, that the two systems can in fact co-exist, so the transfers at trade levels... It is appropriate there because you are trying to work out what the credit is to show the tax, but when you get to the retail level, unless the customer asked for an invoice to show the tax being paid, it would in fact just be factored into the price of the good.

In the rag trade, in the clothing trade, where you get relatively frequent changes in the price of the goods to the consumer, there may really in fact be some substantial advantages in the retailer not having to recalculate the tax all the time, but they just simply work it out in their bookkeeping, in order to remit the appropriate amount, knowing all along that this tax is related to the price at which they actually sell the good, rather than, let us say, what the official retail price had been.

Mr. Wood: The value-added taxes and the multi-stage sales taxes discussed here, other than the provincial element, are imposed on the vendor, just like all the European taxes. Although they collect it from the next fellow up the chain, it is really imposed on the vendor. The provincial tax is imposed not on the vendor but on the purchaser. The vendor just has an obligation to collect. We are not really given the details of the national sales tax, but one can only presume that, if the provinces want to impose it themselves, without a constitutional change, at that final level, it would have to be imposed on the purchaser or the consumer rather than as a tax on the vendor. So there could be a different mechanism for imposing that tax at the final level, where there is a federal and a provincial tax.

[Translation]

Dans certains pays d'Europe, il est interdit d'inscrire la taxe séparément dans le cas de la vente au détail; il faut donc la cacher. Au Royaume-Uni, on agit au choix. Les autorités du Royaume-Uni nous ont dit que, quand la taxe a été instaurée, on avait tendance à l'indiquer séparément à tous les niveaux, pour imputer l'augmentation de prix au gouvernement, je suppose. A la longue, au niveau de la vente au détail, la taxe a été incorporée au prix de vente, tandis qu'elle est restée séparée au niveau des intermédiaires, entre entreprises. Il y a probablement une exception dans le cas des produits très coûteux, comme les yachts, les voitures ou les avions. Dans ces cas-là, même s'il s'agit d'un bien de consommation, la taxe serait probablement indiquée séparément.

M. Cassidy: Pourrais-je aller un peu plus loin? C'est en partie parce que vous avez dit que, dans la mesure où l'on parle de la partie provinciale d'une taxe de vente nationale, il faudrait, quelles que soient les circonstances, qu'elle soit indiquée, en raison des contraintes constitutionnelles et parce que les provinces ne peuvent lever que des taxes directes.

Or, je reçois des avis divergents. Il me semble qu'il serait possible d'aller dans un sens comme dans l'autre, et que les deux régimes peuvent coexister, de sorte que les transferts dans le commerce... Il me semble que c'est approprié dans ce cas-là, parce qu'on essaie de calculer le crédit pour pouvoir établir le montant de la taxe, mais, dans la vente au détail, à moins que le client ne réclame une facture indiquant le montant de la taxe qu'il paye, celle-ci serait tout simplement incluse dans le prix de vente du produit.

Dans l'industrie de l'habillement, dans le commerce des vêtements, où les prix de vente aux consommateurs changent assez souvent, il pourrait bien être avantageux pour le détaillant de ne pas avoir à recalculer constamment la taxe; il pourrait simplement la calculer dans sa comptabilité afin de payer le montant approprié, en sachant bien que cette taxe est calculée en fonction du prix de vente effectif plutôt que de ce que nous pourrions appeler le prix de détail officiel.

M. Wood: Mis à part l'élément provincial, les taxes à la valeur ajoutée et taxes multi-stades, dont nous parlons ici, sont imposées sur le vendeur, comme toutes les taxes européennes. Même si le vendeur la perçoit auprès de l'acheteur, c'est vraiment lui qui est imposé. La taxe provinciale n'est pas imposée sur le vendeur, mais bien sur l'acheteur. Le vendeur a pour seule obligation de la percevoir. On ne nous a pas donné vraiment tous les détails au sujet de la taxe de vente nationale, mais nous pouvons présumer que, si les provinces veulent l'imposer elle-même, et s'il n'y a pas de changement constitutionnel à ce niveau-là, il faudrait que la taxe soit imposée sur l'acheteur ou sur le consommateur, plutôt que sur le vendeur. Il y aurait donc un autre mécanisme d'imposition de la taxe au dernier niveau, dans les cas où il y aurait une taxe fédérale et une taxe provinciale.

[Texte]

Mr. Cassidy: Surely if it is a national sales tax, the provincial tax is going to apply at each level at the same time as the federal tax, is it not?

Mr. Wood: There are various ways of doing it. Presumably you could have a federal tax at the combined rates at earlier stages, and a provincial tax at the other end. There are various possibilities. Another one might be that the federal government collect it all and it is just a federal tax, and then there is some sort of revenue-sharing agreement with the provinces.

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Mr. Cassidy: In which case the federal government... in order to get around the constitutional problem, it would be like a tax rental agreement—

Mr. Wood: Exactly.

Mr. Cassidy: —where the provinces agreed. However, they would still be able to vary the rates within their provinces.

Mr. Wood: Yes.

Mr. Cassidy: So the national sales tax might be applied at different rates, from 8% to 12%, depending on the—

Mr. Wood: With a tax rental agreement; you are quite right. That is another possibility. We have not been given any of the details as to the discussions that have been going on.

The Chairman: I have only one question. In Ontario, bars and small hamburger joints and so on do not pay the tax and sell things tax-included.

Mr. Wood: Ontario has been having some problems with that just recently, and they changed the regulation, in December in fact, to now require separate disclosure. They were having a lot of difficulties with it.

The Chairman: Do you mean they have gone around and made all the hamburger joints add the 7%?

Mr. Wood: Well, they are supposed to, but—

The Chairman: You know as well as I do that they do not.

Mr. Wood: The rule has changed. They had a lot of trouble with tax-included pricing. They tried to do tax-included pricing when they introduced the prepared food tax and extended it, but they have backed off on that. The regulation was just published.

One other point I should make is that the provinces will be interested in some sort of consumer-protection legislation, so that when the consumer goes into the store he will not be misled as to price. You might be comparing

[Traduction]

M. Cassidy: S'il s'agit d'une taxe de vente nationale, la taxe provinciale sera sûrement comptée à chaque niveau en même temps que la taxe fédérale, n'est-ce pas?

M. Wood: Il y a diverses façons de le faire. La taxe fédérale s'appliquerait probablement aux taux combinés aux premiers stades, et la taxe provinciale aux autres. Il y a diverses possibilités. Par exemple, le gouvernement fédéral pourrait percevoir la totalité de la taxe, qui ne serait qu'une taxe fédérale; on peut aussi envisager une sorte d'entente de partage des recettes avec les provinces.

M. Cassidy: Au quel cas le gouvernement fédéral... afin de contourner le problème constitutionnel, ce serait comme une entente de location de taxe...

M. Wood: Exactement.

M. Cassidy: ... Dans les cas où les provinces seraient d'accord. Toutefois, elles resteraient capables de modifier les taux sur leurs territoires.

M. Wood: Oui.

M. Cassidy: Autrement dit, la taxe de vente nationale pourrait varier entre 8 p. 100 et 12 p. 100, par exemple, selon...

M. Wood: Dans le contexte d'une entente de location de taxe, vous avez parfaitement raison. C'est une autre possibilité. On ne nous a pas donné de détails sur les discussions qui ont eu lieu.

Le président: J'ai seulement une question. En Ontario, les bars et les petits comptoirs où l'on vend des hamburgers, par exemple, ne paient pas de taxe et vendent leurs produits taxe incluse.

M. Wood: L'Ontario a tout récemment éprouvé certaines difficultés à cet égard, et le règlement a été changé, en décembre. Il faut désormais indiquer séparément la taxe. Le gouvernement ontarien éprouvait de grandes difficultés à cet égard.

Le président: Voulez-vous dire que le gouvernement s'est retourné et qu'il a obligé tous les débits de hamburgers à ajouter les 7 p. 100?

M. Wood: Eh bien, les vendeurs sont censés le faire, mais...

Le président: Vous savez aussi bien que moi qu'ils ne le font pas.

M. Wood: La règle a changé. Le régime des prix taxe incluse a causé de nombreuses difficultés au gouvernement. Les autorités avaient essayé de faire adopter le principe des prix taxe incluse quand elles ont introduit la taxe sur les aliments préparés, et l'ont élargie, mais elles sont revenues en arrière. Le règlement vient d'être publié.

Je devrais faire valoir un autre point: Les provinces voudront avoir une forme quelconque de législation sur la protection des consommateurs, pour que les consommateurs ne soient pas induits en erreur au sujet

[Text]

a suit in one store versus a suit in the other store, and the difference might be the sales tax. So obviously, whether it is buried or shown separately, there will have to be some kind of consumer disclosure so the consumer is not misled as to choices.

Mr. Friedman: Well, that ends the number crunching for a while.

The next area covers administration of the tax and compliance. The white paper is very sketchy in this area, and I suspect it is just open to further discussion and further refinement. The first question, and we drew up a laundry list, is: How are you going to run this tax? Obviously, you could run it all with the federal government. You could have a joint federal-provincial administration of the tax, or you could have an independent authority.

Ideally, you would like one administration with one set of auditors, one set of guidelines, one set of forms, as compared to the current situation where an enterprise that operates across Canada may be dealing with nine sets of provincial auditors and as many as three separate sets of federal auditors. Obviously, the fewer individuals or groups you deal with, the less in terms of compliance costs. If not all of the provinces participate, you would still continue with multiple administration, because as Peter mentioned, you could have some provinces opt out and still continue their own provincial sales tax scheme, in which case you would have multiple administration.

There has been some suggestion of possible co-ordination with income tax, especially in the audit area. Currently there is a strange anomaly with Revenue Canada, in that if an income tax auditor comes into your premises and finds an underpayment of federal sales tax, there really is no obligation for him or her to report that underpayment, and in fact they would be less than likely to report this, because to report a federal sales tax underpayment would reduce a corresponding income tax assessment. So you have the situation of two authorities within the same department—

The Chairman: Do you mean that really happens?

Mr. Friedman: Yes, it does.

The Chairman: Working for the same Minister?

Mr. Friedman: Yes.

The Chairman: Has the Minister ever fired anybody who did this?

Mr. Friedman: Well, I am not sure—

The Chairman: If not, why not?

[Translation]

du prix des produits qu'ils trouveront en magasin. On peut imaginer quelqu'un qui comparerait les prix des complets dans deux magasins, car la seule différence de prix pourrait être due à la taxe de vente. Manifestement, que la taxe soit incluse dans le prix de vente ou qu'elle soit indiquée séparément, il faudra que le consommateur sache combien il lui en coûte pour pouvoir en tenir compte dans ses choix.

M. Friedman: Bon. Nous en avons fini avec les calculs pour le moment.

Passons maintenant à l'administration de la taxe et au respect des règlements. Le Livre blanc est très vague à ce sujet, et je pense qu'il peut y avoir d'autres discussions et des améliorations. Ma première question—et nous en avons une liste—est la suivante: Comment cette taxe sera-t-elle administrée? De toute évidence, elle pourrait l'être entièrement par le gouvernement fédéral. Elles pourrait aussi être administrée conjointement par le gouvernement fédéral et par les provinces, ou encore par un organisme indépendant.

Dans l'idéal, il faudrait une seule et unique administration, avec un groupe de vérificateurs, un ensemble de lignes directrices, un jeu de formules, plutôt que le régime actuel, dans lequel une entreprise canadienne traite avec neuf groupes de vérificateurs provinciaux et jusqu'à trois groupes distincts de vérificateurs fédéraux. Il est certain que, moins il y a de personnes ou de groupes avec qui il faut traiter, moins le coût d'application du régime est élevé. Si les provinces ne participent pas toutes au régime, le système d'administration multiple se maintiendra, parce que, comme Peter le disait, certaines provinces pourraient décider de se retirer et de poursuivre leur propre régime de taxe de vente provinciale, auquel cas nous nous retrouverions avec une administration multiple.

Il a été question d'une éventuelle coordination de la taxe de vente avec l'impôt sur le revenu, particulièrement dans le domaine de la vérification. Il existe actuellement une étrange anomalie à Revenu Canada: Si un vérificateur de l'impôt sur le revenu vient dans les locaux d'une entreprise et qu'il constate que celle-ci n'a pas payé toute la taxe de vente fédérale qu'elle devait, rien ne l'oblige à signaler ce défaut; en fait, les vérificateurs n'ont guère tendance à signaler un manquement de ce genre, parce que cela réduirait l'impôt sur le revenu à payer. Autrement dit, deux services d'un même ministère. . .

Le président: Voulez-vous dire que cela se produit vraiment?

M. Friedman: Oui.

Le président: Les fonctionnaires au service du même ministre?

M. Friedman: Oui.

Le président: Le ministre a-t-il déjà congédié quelqu'un pour cela?

M. Friedman: Eh bien, je ne sais pas exactement. . .

Le président: S'il ne l'a pas fait, pourquoi pas?

[Texte]

Mr. Friedman: Even from personal observation that this has happened. . . the income tax auditor says: You are manufacturing in that corner and you should be paying federal sales tax, so take care of it. What is the mandate of the auditor? I think with a new start it may be a place to combine the two projects.

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This area is obviously open. Even if you did not go to a federal system or a national sales tax, if you had a choice between GST and VAT, you could still consider combining the income tax audit function with a VAT or GST function.

We go on to filing requirements, very brief filing requirements under a federal GST. We will start with GST. To be eligible not to file, the individual would have to meet the following conditions: the individual does not have a fixed place of business other than his residence; the individual makes all or substantially all of his sales to final consumers; and total sales by the individual do not exceed \$5,000 in the calendar year. I would suggest that this would mean that under a GST virtually everybody would have to register.

The Chairman: What do you think about the \$5,000 threshold, the *de minimis* rule?

Mr. Friedman: I do not know if you have had babysitters work for you, but I think a busy babysitter might exceed the \$5,000 rule.

The Chairman: That is what I was getting at. There are also people who do part-time hairdressing in their basement and that type of thing. Is \$5,000 not a bit ridiculous as a *de minimis* level?

Mr. Friedman: I am not sure what the logic behind the \$5,000 level was.

Mr. Wood: We could argue that, for personal income tax purposes, exemptions are equivalent to that range; and if the person made that much or more, he would have personal income tax to pay as well.

Mr. Friedman: So you are agreeing with a lower threshold.

Mr. Wood: I did not say that; I am just saying what the argument might be.

Mrs. Collins: Do we have any idea of how many people would fall into this kind of category?

Mr. Friedman: The figure we hear bandied about is 1.5 million to 2 million taxpayers, and I am not sure whether that is under a GST projection or a VAT projection. The last sentence says:

[Traduction]

M. Friedman: Même après avoir personnellement constaté que cela se produit. . . le vérificateur de l'impôt sur le revenu dit: «Vous fabriquez dans ce coin-là un produit, et vous devriez payer la taxe de vente fédérale, alors voyez-y.» Quel mandat le vérificateur a-t-il? Je pense qu'un nouveau départ nous donnerait l'occasion de combiner les deux projets.

Dans ce secteur, les possibilités sont manifestes. Même si nous n'abordons pas un régime fédéral ou une taxe de vente nationale, et que l'on se borne à choisir entre une TBS et une TVA, on pourrait toujours songer à combiner la fonction de vérification de l'impôt sur le revenu avec une fonction analogue pour la TVA ou la TBS.

Passons maintenant aux exigences de dépôt de documents, des exigences très simples dans le cas d'une TBS fédérale. Commençons avec la TBS. Pour n'être pas tenu de déposer des documents, la personne devrait satisfaire aux conditions suivantes: ne pas avoir d'adresse d'affaires fixe, exception faite de sa résidence; avoir fait la totalité ou une grande partie de ses ventes aux consommateurs eux-mêmes; et avoir eu un chiffre de vente total n'excédant pas 5,000\$ au cours de l'année civile. Je dirais que cela signifie que virtuellement tout le monde devrait s'enregistrer, dans le contexte d'une TBS.

Le président: Que pensez-vous du seuil de 5,000\$, la règle de *de minimis*?

M. Friedman: Je ne sais pas si vous avez déjà fait garder vos enfants, mais je pense qu'une personne qui en garde beaucoup pourrait dépasser ce seuil de 5,000\$.

Le président: C'est ce à quoi je voulais en venir. Il y a aussi des gens qui exploitent un salon de coiffure à temps partiel dans leur sous-sol, et d'autres entreprises de ce genre. Ce seuil de *de minimis* de 5,000\$ n'est-il pas un peu ridicule?

M. Friedman: Je ne sais pas exactement sur quoi on s'est fondé pour choisir ce seuil de 5,000\$.

M. Wood: Nous pourrions dire que, pour les fins de l'impôt sur le revenu personnel, les exemptions équivalent au seuil, de sorte que si la personne avait des recettes égales ou supérieures au seuil, elle devrait aussi payer de l'impôt sur le revenu.

M. Friedman: Vous êtes donc d'accord avec l'idée d'un seuil moins élevé.

M. Wood: Ce n'est pas ce que j'ai dit; je dis simplement que c'est un raisonnement possible.

Mme Collins: Avons-nous une idée du nombre de personnes qui tomberaient dans cette catégorie?

M. Friedman: Les chiffres qu'on nous donne se situent entre 1,5 million et 2 millions de contribuables, et je ne suis pas sûr que ce chiffre corresponde à une projection pour la TBS ou pour la TVA. La dernière phrase précise bien que:

[Text]

... either a National Sales Tax or federal VAT, the dollar threshold for the exemption could be higher and it could be extended to incorporated businesses, partnerships and other business entities.

I am not sure whether that 1.5 million to 2 million taxpayers refers to a national sales tax VAT scheme or a GST scheme. There are some pretty large garage sales that you see in Toronto, Ottawa, Winnipeg, wherever, where the takes are surprisingly high, and now the government has suggested that it is going to trap that revenue. Well, good luck.

I am not clear. The problem is that there is the other side to this. To give an extreme example, if registration is required for garage sales, then perhaps sellers should be able to get a credit for the tables that hold the items at the garage sale or the car that takes the leftover stuff to the city dump. The car is used in a business, so is the whole garage. One of the problems is not that we have not caught everybody but that we catch too many people.

In the U.K., you have to meet certain criteria to be able to opt in. They do not want all the small registrants. It clutters up the system, plus it requires additional police persons to make sure that any claims, any credit or refund claims by these individuals are bona fide.

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Mrs. Collins: This tax would then apply to resale, such as the second-hand sale of goods, the garage sale type of situation.

Mr. Friedman: I would assume that—

The Chairman: Why would second-hand sales attract a value-added tax?

Mr. Wood: The first question is: Are they carrying on a business? If they are not carrying on a business, they are not in the system. I suppose if the garage sale was every week or every day, then it is more like a business and it should be in.

As for second-hand goods, yes, where second-hand goods flow through a business they would be subject to the tax. In that sector there is normally an exception for charities on donated goods.

Mr. Friedman: I think what you are facing is that the more individuals and businesses you register, the greater the number of refund claims, and if we carried the garage sale example through... that occurs where your taxed purchases exceed your tax payable. Then who is to say what is used in that business if you run, say, a garage sale once a week for the whole summer? That is where it

[Translation]

... soit pour une taxe de vente nationale ou une TVA fédérale, la valeur du seuil d'exemption pourrait être plus élevée, l'exemption pouvant s'appliquer aux entreprises constituées en société, aux associations et aux autres types de société.

Je ne suis pas sûr que les 1,5 million à 2 millions de contribuables en question soient comptés dans le contexte d'un régime de taxe de vente nationale de type TVA ou en TBS. Il y a à Toronto, Ottawa, Winnipeg et ailleurs de grosses ventes de garage, dont les recettes sont étonnantes; le gouvernement a laissé entendre qu'il allait récupérer cette source de recettes. Eh bien, je lui souhaite bonne chance.

Je ne sais pas très bien. Le problème, c'est qu'il faut tenir compte de l'autre côté de la médaille. À l'extrême, s'il faut s'enregistrer pour faire une vente de garage, il faudrait peut-être que les vendeurs bénéficient d'un crédit pour les tables sur lesquelles les articles mis en vente sont exposés ou pour le véhicule dont ils se servent pour transporter au dépôt les articles laissés pour compte. Le véhicule est utilisé pour des fins commerciales, comme le garage lui-même. Le problème n'est pas que nous n'avons pas pincé tout le monde, mais que nous en avons pincé trop.

Au Royaume-Uni, il faut répondre à certains critères pour pouvoir participer au régime. Le gouvernement ne veut pas tous les petits demandeurs. Cela encombre le système, sans compter le nombre accru de personnes auxquelles il faut avoir recours pour contrôler la véracité des réclamations, des crédits ou des demandes de crédits.

Mme Collins: Cette taxe s'appliquerait donc à la revente, comme les articles de seconde main, c'est-à-dire comme dans une vente de garage.

M. Friedman: Je suppose que...

Le président: Pourquoi les articles de seconde main feraient-ils l'objet d'une taxe sur la valeur ajoutée?

M. Wood: Le premier point à déterminer est le suivant: Sont-ils en affaires? S'ils ne le sont pas, ils ne rentrent pas dans le système. Je suppose que si la vente de garage se déroulait toutes les semaines ou tous les jours, cela se rapprocherait alors davantage de l'entreprise, qui devrait être dans le système.

Quant aux articles de seconde main, oui, ils sont imposables s'ils sont vendus par une entreprise. Dans ce secteur, cependant, les biens donnés par charité sont exonérés.

M. Friedman: Vous êtes, je crois, dans la situation où plus il y a de particuliers et d'entreprises inscrits, plus le nombre de demandes de remboursement sera élevé, et si nous poussons l'exemple de la vente de garage encore plus loin... et on a la situation où les achats imposables dépassent de loin la taxe payée. Qui peut dire alors ce qui a servi à cette entreprise si vous tenez, par exemple, une

[Texte]

starts, and I guess it takes us down to that some method is required to police credit claims.

On page 72—and we kind of have to jump around. There is really not a lot on this stuff, but you kind of pick out the taxation period. Page 72 covers the taxation period, and I think we have covered this once or twice. The taxation periods will be either a month or a quarter. Most taxpayers will file quarterly. The quarterly periods will be based on their fiscal year for income tax purposes, as opposed to the calendar year. Taxpayers whose annual taxable sales exceed an annual threshold, \$6 million, for example. . . Now, I do not know what that “for example” means, whether it is what they are offering as the threshold or is an example of what the threshold could be. Therefore those with \$6 million, for example, will file monthly. Where an associated group's annual sales exceed this threshold, all members of the group will file monthly. Both quarterly and monthly filers will be required to file returns within one month following their respective taxation period.

Also, taxpayers who are individuals with small amount of sales will be able to file their returns and remit the taxes annually; and in the last paragraph, taxpayers who qualify for annual or quarterly filing will be allowed to elect to file monthly. This option will benefit taxpayers who are regularly in a refund position, and this is what we have kept coming back to, especially exporters. The election will take place in the first month of a fiscal period and the taxpayer will be required to continue filing on that basis for the rest of that fiscal period.

Where it is beneficial and where you want to speed up the credits, then you would elect to file on a monthly basis.

Are there any questions?

Mr. Cassidy: Certain tax regimes have some kind of a total exemption for very small enterprises, and I would ask you to elaborate on that. How does it work in terms of eventual capture, if any, of taxation for the tax system?

Mr. Friedman: I do not know if it confers a benefit. However, if we go back to our garage sale example, if you say you are too small, you cannot register, what you are saying is that all of the purchases would be taxable. There is no opportunity to get a credit, and in exchange for that they are not required to withhold the tax when they make these casual sales to customers. However, they will be required to add to their selling price their increased costs, because they have not been able to get a credit on their purchases.

[Traduction]

vente de garage par semaine pendant tout l'été? Voilà comment cela commence, et je suppose que nous en arrivons à la conclusion qu'il va falloir mettre sur pied une méthode quelconque de contrôle des demandes de crédit.

À la page 80—il nous faut ici sauter des paragraphes. Il n'y a pas vraiment grand-chose sur ce sujet, mais prenons, par exemple, la période de taxation qui est présentée à la page 80. Comme on l'a déjà vu, je pense, une ou deux fois, la période de taxation sera mensuelle ou trimestrielle. La plupart des assujettis produiront des déclarations trimestrielles. Leur période trimestrielle sera basée sur leur exercice financier aux fins fiscales plutôt que sur l'année civile. Les assujettis dont les ventes taxables annuelles dépassent un certain seuil (6 millions de dollars) par exemple. . . En réalité, je ne sais pas ce que ce chiffre représente, s'il s'agit d'un seuil proposé ou si c'est un exemple de ce que pourrait être ce seuil. Ainsi donc, tous les assujettis dont les ventes taxables dépassent 6 millions de dollars, par exemple, devront produire des déclarations mensuelles. Lorsque les ventes annuelles d'un groupe d'assujettis associés dépasseront ce seuil, tous les membres du groupe produiront des déclarations mensuelles. Les assujettis qui devront produire des déclarations trimestrielles et mensuelles seront tenus de le faire dans le mois suivant la fin de leur période de taxation respective.

De plus, les assujettis qui sont des particuliers effectuant de faibles ventes pourront produire une déclaration et remettre la taxe annuellement. Au dernier paragraphe, les assujettis ayant le droit de produire des déclarations annuelles ou trimestrielles pourront opter pour des déclarations mensuelles. Cette possibilité profitera aux assujettis qui ont régulièrement droit à un remboursement, en particulier les exportateurs. Le choix entrera en vigueur au cours du premier mois d'une période de taxation, et l'assujetti sera tenu de continuer de produire ses déclarations de la même manière jusqu'à la fin de la période en question.

Donc, lorsque cela est avantageux et lorsque vous souhaitez accélérer l'obtention des crédits, vous choisissez de produire une déclaration mensuelle.

Y a-t-il des questions?

M. Cassidy: Certains systèmes fiscaux prévoient une exonération totale des toutes petites entreprises. Pouvez-vous me dire quelles seraient, dans de tels cas, les modalités prévues pour la perception de la taxe?

M. Friedman: Je ne sais pas si cela représente un avantage. Cependant, si nous revenons à notre exemple de la vente de garage, si l'intéressé déclare qu'il est trop petit, qu'il ne peut pas s'inscrire, cela revient à dire que tous les achats seraient taxables. Il n'a donc pas la possibilité d'obtenir un crédit et de ce fait, n'est pas tenu de retenir la taxe sur les biens ou services qu'il vend directement aux consommateurs. Néanmoins, il lui faudra majorer son prix de vente en fonction de ses coûts, puisqu'il n'aura pas pu bénéficier du crédit dans ses achats.

[Text]

[Translation]

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Mr. Cassidy: To begin with, the generally casual seller who cleans out his basement once a year and sells \$300 or \$400 of goods is not picked up in the provincial sales tax system. Is that correct?

Mr. Friedman: No.

Mr. Cassidy: At what point would the provincial tax systems pick up people, let us say, who go regularly to flea markets? Is there a certain level of turnover that brings them into the system?

Mr. Wood: Instead of level of turnover, going back to the business test, in fact the provinces bring you in when you have a very small amount of sales if you are doing it as a regular thing, continuously. The only relief is the filing requirement. For instance, in Ontario generally you file every month. But if you are a very small business in your flea market sales with not too much volume, then they will allow you to file quarterly or sometimes semi-annually, or annually even. That is the relief, rather than any threshold.

Mr. Cassidy: This means that if you are, let us say, selling \$100 of goods every week, for the sake of argument, but nonetheless going regularly out to Stittsville to sell, then you would be picked up by that business test. Is that correct?

Mr. Wood: That is correct, and do not forget that in the provincial systems the obligation is to collect from the consumer, because it is really a tax on the consumer and it is just an obligation to collect from that consumer. So it is an obligation to collect rather than actually to pay the tax yourself.

Mr. Cassidy: As I understand it, one of the results of the consequences of the VAT in Great Britain was that not only did the revenues come in but also then they found the corporate tax revenues increased significantly from a lot of enterprises that had basically slipped through the cracks before.

The Chairman: Why would that happen?

Mr. Cassidy: I think it is the self-enforcing nature of the VAT. People were having to provide invoices in order that the purchasers of their goods or services would be able to get credits for VAT paid, and once they became remitters of VAT that put them into the tax net and therefore their enterprise had to file for income tax.

Am I correct about that?

Mr. Friedman: Yes. However, if you are in this flea market, or whatever, and all you sell to is consumers, then there is no incentive to register, because if you do not have to collect the tax then the cost of taxes on your

M. Cassidy: Tout d'abord, le vendeur occasionnel qui fait une fois par an un grand nettoyage de son sous-sol et réalise des ventes de l'ordre de 300\$ ou 400\$ n'est pas du tout touché par la taxe de vente provinciale, n'est-ce pas?

M. Friedman: Non.

M. Cassidy: A quel moment les personnes qui, disons, fréquentent régulièrement les marchés aux puces, deviennent-elles assujetties à la taxe provinciale? Y a-t-il un certain niveau de roulement à partir duquel ils sont assujettis?

M. Wood: Plutôt qu'un niveau de roulement, pour en revenir au test d'entreprise, les provinces vous assujettissent lorsque vous avez un très petit chiffre d'affaires, mais régulier, continu. La seule faveur qui soit accordée se situe dans les exigences de déclaration. Par exemple, en Ontario, il vous faut produire généralement une déclaration par mois. Mais si vous êtes une toute petite entreprise dans le secteur marché aux puces, dont les ventes ne sont pas trop élevées, vous pouvez être autorisé à produire une déclaration trimestrielle et, quelquefois, semestrielle ou même annuelle. C'est de cette manière que se fait l'allègement du fardeau fiscal, plutôt qu'à partir d'un seuil.

M. Cassidy: En d'autres termes, si, par exemple, vous vendez 100\$ de biens par semaine, mais que vous le faites régulièrement toutes les semaines, par exemple, à partir de Stittsville, vous serez alors repéré par cet test d'entreprise. Est-ce exact?

M. Wood: C'est exact, et n'oubliez pas que dans le cadre des systèmes provinciaux, l'obligation de percevoir se situe au niveau du consommateur, car il s'agit en réalité d'une taxe imposée aux consommateurs, et l'obligation d'un vendeur se résume à la percevoir auprès du consommateur. C'est donc une obligation de percevoir plutôt que de payer soi-même.

M. Cassidy: Si j'ai bien compris, à la suite de l'imposition de la TVA en Grande-Bretagne, non seulement la taxe a pu être perçue, mais on a constaté une augmentation considérable des recettes de taxes d'affaires provenant d'un grand nombre d'entreprises qui avaient réussi jusque là à glisser entre les mailles du filet.

Le président: Pourquoi cela?

M. Cassidy: Je pense que cela provient de l'autocontrôle inhérent au système de la TVA. Les vendeurs devaient fournir à leurs clients de biens ou services des factures qui leur permettaient de réclamer les crédits sur la TVA payée, et une fois que ces fournisseurs devenaient remettants de TVA, ils tombaient dans le filet fiscal et se trouvaient dans l'obligation de produire une déclaration d'impôt sur le revenu.

Ai-je raison?

M. Friedman: Oui. Néanmoins, si vous oeuvrez dans le secteur marché aux puces, ou n'importe quel secteur, et que vous faites affaires exclusivement avec les consommateurs, vous n'avez aucun intérêt réel à vous

[Texte]

inputs is probably lower than the costs where you have to build that into your selling price.

Mr. Cassidy: And to some extent in the informal economy, as I understand it, you basically shrug your shoulders and content yourself with the fact that the inputs purchased by that participant in the informal economy are taxed and no credit is taken for the tax paid on those inputs. Is that correct?

Mr. Friedman: That is if you want to get around withholding the tax.

Mr. Cassidy: To take an example of the kid who makes a couple of hundred dollars painting somebody's recreation room and buys \$100 of paint, you get the tax on the paint even though you do not get the tax on the kid.

Mr. Friedman: You do not get the income tax, nor do you get the tax on his mark-up.

Mr. Cassidy: But you do get the—

Mr. Friedman: The tax on his inputs. Since most of it is muscle power and very little materials, you get very little from that person. So the leakage is greater where the value-added is greater.

Mr. Cassidy: But these are still relatively minimal amounts—we think; we do not know.

Mr. Friedman: That is right.

Mr. Cassidy: Are there systems, though, in other countries where enterprises below a certain size are in some way exempted from having to remit a VAT or equivalent type of tax?

Mr. Friedman: Yes.

Mr. Cassidy: Can you tell us about those?

Mr. Wood: I think the next item, "Overhead", in fact deals with small business.

Mr. Friedman: Yes.

Mr. Wood: We talk about the threshold and the issues you will want to consider.

Mr. Cassidy: I understand that politically that has been done partly because of a desire to cool out a particular sector of the small business constituency; that is part of the reason why this is done.

Mr. Wood: But there are some problems with the threshold.

Mr. Cassidy: Which you will tell us about.

Mr. Wood: We will tell you about those in a couple of seconds.

Mr. Friedman: New Zealand generally requires bi-monthly and half-yearly returns, as compared to our monthly and quarterly returns.

[Traduction]

inscrire, puisque si vous n'avez pas à percevoir la taxe de vente, cela vous coûtera probablement moins cher de payer la taxe sur vos intrants plutôt que d'intégrer cela dans votre prix de vente.

M. Cassidy: Jusqu'à un certain point, si je comprends bien, dans l'économie parallèle on se contente du fait que les intrants achetés par ce participant de l'économie parallèle ont été taxés, et aucun crédit n'est réclamé pour la taxe payée sur ces intrants. Est-ce exact?

M. Friedman: Si vous voulez éviter de percevoir la taxe.

M. Cassidy: Prenons l'exemple du jeune qui se fait payer 200\$ pour peindre la salle de jeu d'un voisin et paye sa peinture 100\$; vous avez la taxe sur la peinture, même si vous ne l'avez pas sur l'effort du jeune.

M. Friedman: Vous n'avez ni l'impôt sur le revenu, ni la taxe sur sa majoration.

M. Cassidy: Mais vous obtenez. . .

M. Friedman: La taxe sur ces intrants. Puisque la majeure partie de ces derniers est constituée d'efforts physiques, avec très peu de matériel, vous ne retirez pas grand-chose de cette personne. Ainsi donc, l'ampleur des fuites est proportionnelle à celle de la valeur ajoutée.

M. Cassidy: Mais ces cas représentent des montants relativement minimes—enfin, on le pense.

M. Friedman: C'est exact.

M. Cassidy: Mais y a-t-il ailleurs des systèmes dans lesquels en-dessous d'une certaine taille, les entreprises sont exonérées de l'obligation de percevoir la TVA ou une autre taxe de ce genre?

M. Friedman: Oui.

M. Cassidy: Pouvez-vous nous en parler?

M. Wood: Je pense que le point suivant, «frais généraux», porte justement sur les petites entreprises.

M. Friedman: Oui.

M. Wood: Nous parlons du seuil et des points qu'il faudra envisager.

M. Cassidy: Je crois que cela a été une décision politique prise en partie pour calmer un secteur particulier de l'électorat des petites entreprises; voilà, entre autres, pourquoi cela a été fait.

M. Wood: Mais la question du seuil cause des problèmes.

M. Cassidy: Dont vous allez nous parler.

M. Wood: Nous vous en parlerons dans quelques instants.

M. Friedman: En Nouvelle-Zélande, les assujettis doivent produire une déclaration bimestrielle ou semestrielle, par opposition à nos déclarations mensuelles ou trimestrielles.

[Text]

[Translation]

• 1605

The U.K. registration requirements may answer your question somewhat. A person who makes taxable supplies is liable to be registered after the end of the quarter if the value of his taxable supplies in that quarter has exceeded 7,250 pounds or in the last quarter has exceeded 21,300 pounds, which is about \$50,000 Canadian a year roughly, or at any time, if there are reasonable grounds for believing the value of his taxable supplies in the period of one year beginning on that or any later date will exceed 21,300 pounds. If you are just going into business and if you estimate your revenues in the year to be \$100,000, then you can be registered at that beginning period.

There is discretionary registration where a person who makes or intends to make taxable supplies is not or will not be required to be registered. The commissioners may nevertheless permit him to be registered. This might be the case where the competitors of this person are registered and he would face a competitive disadvantage in not being able to claim credit for input tax, or where his customers are taxable persons who require tax invoices from him so they may claim the appropriate credit.

In the U.K., according to the guide of the International Bureau of Fiscal Documentation:

The commissioners have published the criteria they use when deciding whether or not to allow discretionary registration.

You have to be able to meet their conditions:

The applicant must demonstrate a compelling business need by satisfying three tests: he must be making taxable supplies in the course or furtherance of a business; the supplies must contribute substantially to his livelihood; and he must show that he would incur substantial irrecoverable input tax if he were not registered. Where a person is registered at the commissioner's discretion, he is allowed to credit only input tax which is wholly attributed to his intended taxable supplies.

He cannot write off his car, his home and his dog and everything else. It has to relate to what he has asked to be discretionarily registered for:

If he does not make any taxable supplies within one year of his registration, he may be required to return any payments of excess input tax.

You can go hat in hand to Inland Revenue and they will allow you to register if you fall under the minimum limits, but if it turns out that the only reason you

Les exigences d'inscription en Grande-Bretagne pourraient répondre à votre question d'une certaine manière. Le producteur de fournitures taxables peut devoir s'inscrire après la fin d'un trimestre si la valeur des fournitures taxables qu'il a produites pendant le trimestre a dépassé 7,250 livres, ou pendant le trimestre précédent 21,300 livres, soit environ 50,000\$ Can par an, ou n'importe quand s'il y a des raisons valables de supposer que la valeur des fournitures taxables qu'il produira au cours de l'année commençant à cette date ou à une date ultérieure dépassera 21,300 livres. Si votre entreprise vient juste de démarrer et que vous projetez des recettes de 100,000\$ au cours de l'année, vous pouvez vous inscrire au début de cette période.

Toute personne qui produit ou entend produire des fournitures taxables n'est pas ou ne sera pas assujettie à l'inscription. Il y a par contre une composante discrétionnaire puisque les commissaires peuvent autoriser cette personne à s'inscrire. Il peut s'agir, par exemple, d'une entreprise dont les concurrents sont inscrits et qui ne voudrait pas subir un désavantage de concurrence en n'étant pas en mesure d'obtenir un crédit pour taxe d'intrants ou encore le cas d'une entreprise dont les clients sont assujettis à la taxe et lui demandent des factures pour pouvoir demander les crédits correspondants.

Au Royaume-Uni, il est stipulé dans le guide de l'International Bureau of Fiscal Documentation que:

Les commissaires ont publié les critères sur lesquels ils se fondent pour accorder ou refuser l'inscription facultative.

Il faut pouvoir répondre à leurs exigences:

Le requérant doit prouver que son entreprise en a absolument besoin en répondant à trois critères d'évaluation: il doit produire des fournitures taxables dans le cadre de l'exploitation ou de l'évolution d'une entreprise; les fournitures doivent représenter une portion considérable de son gagne-pain; et il doit prouver qu'il aurait à payer des sommes considérables et non recouvrables de taxe d'intrants s'il n'est pas inscrit. Lorsqu'une entreprise est inscrite à la discrétion du commissaire, elle n'est autorisée à demander de crédit au titre de la taxe d'intrants que dans le cas des fournitures taxables qu'il prévoit produire.

En d'autres termes, il ne peut pas déduire sa voiture, sa maison, son chien et Dieu sait quoi. L'objet du crédit doit se rapporter directement à ce pourquoi il a obtenu l'inscription discrétionnaire, car:

S'il ne produit pas de fournitures taxables au cours de l'année qui suit sa date d'inscription, il peut être tenu de rembourser tout versement excessif de taxe d'intrants qui lui a été fait.

N'importe qui peut se présenter au ministère du Inland Revenue et obtenir l'autorisation de s'inscrire si son cas tombe à l'intérieur des limites prescrites; par contre, s'il

[Texte]

registered was to get back some input taxes, there appears to be an opportunity for Inland Revenue to be able to take those moneys back from you. One of the main reasons for being registered in certain situations is to be able to get back tax credits.

Mr. Cassidy: Can you give an example of the kind of occupation where this discretionary registration might apply?

Mr. Friedman: I guess you go back to casual sales where you are under the government guidelines. You explain you are making casual sales of something but are competing with the store on the corner who is able to supply invoices with taxes on it and you must have the ability to do likewise, if you are selling to retailers or middlemen who require an invoice.

Mr. Cassidy: And where there is a substantial input cost. If basically almost all your costs are your own labour, then it does not much matter.

What about the farm problem? I am not sure we are coming to that later today, but the farm family buys many things that are for their own personal use as opposed to the operation of the farm. I guess the sales tax people have had to deal with this for a long time anyway. They put gas in the tractor. There may be certain types of food, some of which they feed to animals and some of which they may use for their own personal consumption. They buy clothing that is protective clothing for work purposes, and they have to be clothed. How the devil do you segregate in a situation like that so tax paid is not reimbursed in cases where the consumption has been for personal rather than for production use?

Mr. Friedman: You alluded to the fact that we will cover this area, but currently it is a big problem with the farmer who buys a lawnmower, as to whether it is used for his lawn or in his farming activities. It depends on how the system treats farmers. If farmers are treated no differently from any other activity, you have a grey area because a farmer basically runs his business around his home.

At present the farm dealers face a problem getting an exemption certificate for a television set and saying that the farmer used it in his home or it was the TV set provided for the cows because they gave more milk with it. This is a true example. If it is used in farming, the television set becomes exempt from tax for federal sales tax purposes. Those things will continue unless you can think of some way for providing unique rules for farming activities.

[Traduction]

s'avère que la seule et unique raison pour laquelle la personne s'est inscrite était de récupérer certaines taxes d'intrants, il semble que le Inland Revenue ait la possibilité de récupérer ces montants. Dans certains cas, pouvoir recevoir des crédits de taxe représente l'une des principales raisons pour laquelle une entreprise s'inscrit.

M. Cassidy: Pouvez-vous nous donner un exemple du genre d'affaires auxquelles cette inscription discrétionnaire s'appliquerait?

M. Friedman: Je suppose que l'on peut citer les ventes occasionnelles qui tombent sous les lignes directrices du gouvernement. Il suffit de déclarer que l'on vend des biens ou services à l'occasion mais que l'on est en concurrence avec le magasin du coin qui est en mesure de remettre des factures sur lesquelles la taxe est indiquée, et que l'on doit pouvoir en faire de même si l'on veut gagner la clientèle des détaillants ou des intermédiaires qui ont besoin de factures.

M. Cassidy: Et dans les cas où le coût d'intrants est considérable. Si la quasi-totalité des coûts proviennent de son propre travail, la question ne se pose pas vraiment.

Et le problème des agriculteurs? Je ne suis pas sûr que nous abordions ce sujet plus tard aujourd'hui, mais la famille agricole achète bien des choses qui lui servent à des fins personnelles plutôt que pour l'exploitation de la ferme. Je suppose que ce n'est pas la chose nouvelle pour le ministère du Revenu. Ils mettent de l'essence dans leur tracteur; ils achètent divers types d'aliments, parmi lesquels certains servent à nourrir les animaux et d'autres servent à leur consommation personnelle. Ils achètent des vêtements protecteurs pour le travail et, par ailleurs, ils doivent s'habiller. Comment diable faites-vous la distinction dans de tels cas pour que la taxe payée ne soit pas remboursée lorsque les biens ont été utilisés à des fins personnelles plutôt que d'affaires?

• 1610

M. Friedman: Vous avez fait allusion au fait que nous couvrirons ce point, mais à l'heure actuelle, déterminer si l'agriculteur qui a acheté une tondeuse s'en servira pour sa pelouse ou dans ses activités agricoles pose un gros problème. Cela dépend de la façon dont le système traite les agriculteurs. Si ces derniers ne sont pas traités différemment de toutes les autres activités, il y a certes une zone grise puisque l'agriculteur exploite fondamentalement son entreprise à partir de chez lui.

À l'heure actuelle, il n'est pas facile, dans le cas d'un certificat d'exonération pour l'achat d'un téléviseur, de déterminer si l'agriculteur s'en est servi chez lui ou s'il l'a placé avec ses vaches pour qu'elles lui donnent plus de lait. Et c'est l'exemple d'un cas véritable. S'il est employé pour l'exploitation agricole, le téléviseur est exonéré de la taxe de vente fédérale. Ce genre de choses continuera de se produire tant que l'on n'aura pas trouvé un moyen d'établir des règles expressément applicables aux activités agricoles.

[Text]

Mr. Cassidy: We have been through the whole question of automobile expenses for self-employed people and insurance agents, etc. Since there is an element of the national sales tax, which will obviously be involved in running an automobile or in terms of home office expenses, I can imagine that we are going to face some comparable problems. To the extent those expenses enter into the cost of doing business, we are going to have to segregate that from the automobile when it is used both for personal and business use. Some of the same problems we have faced already are going to come back to haunt us on the national sales tax question.

Mr. Friedman: I think it will be very much more. When you look at an automobile costing upwards of \$20,000, there is a great incentive, \$2,000 in taxes, to be able to justify that the car was used for business purposes. Whether you undertake an allocation or it is an all or one proposition, I am not certain, but it is another dilemma.

Mrs. Collins: I am going to be jumping around a little, but I thought of another example facing small business and how you would comply. I own a cookie store. As I understand it, in some provinces if you buy six cookies there is no sales tax because it is considered food and you are on a par with the grocery store if you buy them. If you buy one cookie, you pay tax and it is considered take-out. Depending how we do this, how do I, as an owner, figure what I can claim back if we have a multi-level sales tax or a VAT?

Mr. Friedman: You are referring to what I call the "Ontario doughnut rule".

Mrs. Collins: I think we have it in B.C. also. I cannot remember how it works there.

Mr. Friedman: They assume that the average person cannot consume more than five doughnuts at one sitting. If you are buying six doughnuts, it must be for home consumption. I almost got arrested. I was looking for five other people to buy doughnuts to get around the rules.

I cannot see it happening. You are illustrating why, as we said before, the rules must be very clear-cut. Mr. Cassidy, I think you alluded to the take-out pizza versus the pizza from a restaurant or a restaurant versus a supermarket. I think it got so bad in Ontario that the supermarkets will cook it for you and withhold the provincial sales tax on barbecued chicken.

[Translation]

M. Cassidy: Nous avons débattu toute la question des frais de véhicule pour les travailleurs indépendants, les agents d'assurance, etc. Étant donné qu'il y a là une composante de taxe de vente nationale, qui portera, de toute évidence, sur l'exploitation d'un véhicule ou sur les frais de bureau à domicile, je suppose que ce genre de problèmes se posera à nous. Dans la mesure où ces frais s'inscrivent dans le cadre des affaires, il faudra trouver un moyen de faire la distinction entre l'usage personnel et l'usage professionnel du véhicule. Certains de ces problèmes que nous avons eus jusqu'à présent se poseront de nouveau à nous sur le plan de la taxe de ventes nationale.

M. Friedman: Je pense que cela s'amplifiera. Lorsqu'une voiture coûte 20,000\$ ou plus, la taxe sera suffisamment élevée, près de 2,000\$, pour inciter le propriétaire à tenter d'en justifier un usage professionnel. Entre adopter le principe d'une exonération proportionnelle ou celui plus catégorique de l'usage soit personnel soit professionnel... je ne suis pas sûr, mais je pense que nous avons là un autre dilemme.

Mme Collins: Je vais faire du coq-à-l'âne, mais j'ai pensé à une autre situation de petite entreprise et de modalités d'application. Supposons que je sois propriétaire d'un magasin de biscuits. D'après ce que j'ai compris, dans certaines provinces, si vous achetez six biscuits à la fois, vous ne payez pas de taxe, car cela est considéré comme un achat d'aliment au même titre que si vous achetiez ces biscuits à l'épicerie. Mais si vous achetez un seul biscuit, celui-ci est considéré comme étant de la nourriture à emporter et vous devez donc payer la taxe. Comment donc pourrais-je déterminer, à titre de propriétaire, quelle peut être ma réclamation de remboursement dans le cadre d'une taxe de vente multistade ou d'une TVA?

M. Friedman: Vous faites allusion ici à ce que j'appelle la règle du beigne de l'Ontario.

Mme Collins: Je pense que nous l'avons en Colombie-Britannique également. Mais je ne me souviens pas des modalités là-bas.

M. Friedman: On suppose qu'une personne normale ne peut consommer plus de cinq beignes à la fois. Donc, si vous achetez six beignes, ce doit être pour une consommation à domicile. Et j'ai failli me faire arrêter. Je cherchais cinq autres personnes avec qui acheter des beignes pour détourner le règlement.

Ce genre de situation n'est pas impossible. Et votre exemple vient d'étayer ce que nous avons dit plus tôt, que les règles doivent être claires et précises. Monsieur Cassidy, je pense que vous avez fait allusion aux pizzas à emporter par opposition à la pizza consommée dans un restaurant, ou à la nourriture consommée dans un restaurant par opposition à celle achetée au supermarché. Je pense que la situation s'est détériorée en Ontario à tel point que les supermarchés aujourd'hui vous font payer la taxe de vente provinciale pour les poulets barbecue que vous achetez déjà cuits.

[Texte]

There are all kinds of rules and exceptions and unless you can make it very simple and very clear-cut, you are going to run into the problems. At present, federally, salted peanuts are taxable and unsalted are not. Tell me why the government has decided to make that division. I am not sure.

Mrs. Collins: It would make a difference to whether you could claim tax, I assume.

• 1615

Mr. Friedman: If you decide to have basic groceries tax free, then you would get all your credits back, whatever happened. It is only if you decided to exempt certain food items that you would get into the allocation problems.

Now, there was also a suggestion that a small, unincorporated business with taxable sales under \$50,000 and net tax payable of under \$1,000 could. . . I am sorry.

Mr. Wood: That is for annual filing.

Mr. Friedman: Annual filing is for a small, unincorporated business that has taxable sales under \$50,000 and net tax payable less than \$1,000. This means that the margin of the small, unincorporated business must be under \$13,500 at an 8% rate of tax, and that is not a lot of money. So we do not think there will be too many—

The Chairman: That may be too small a *de minimis* rule as well.

Mr. Friedman: Yes, that is the one-year filing rule.

Now we turn to page 3-2 and look at remittances. In Canada we propose filing within one month after taxation period. New Zealand wants to be different, so they go one month and one day.

The Chairman: Is there a reason for that?

Mr. Friedman: I am not sure why. One of your projects may be to find out why they have the extra day.

Mrs. Collins: Maybe it has something to do with their mail system.

The Chairman: They are going to privatize their post office, though.

Mr. Friedman: The white paper is silent on that assessment period. My question is: how long before business can close its books? I spent this morning trying to find out the assessment periods in some of the other countries, and they are strangely silent. In U.K. they say you must keep your documents for six years.

[Traduction]

Le nombre de règles et d'exceptions est illimité et, à moins que vous ne bâtissiez le système de façon extrêmement claire et simple, les problèmes ne vous seront pas épargnés. À l'heure actuelle, au niveau fédéral, les cacahouètes salées sont taxables, alors que les cacahouètes non salées ne le sont pas. Expliquez-moi pourquoi le gouvernement a décidé de faire cette distinction. Moi, je n'en suis pas capable.

Mme Collins: Vous la verriez, cette différence si vous pouviez réclamer la taxe.

M. Friedman: Si l'on décide que tous les biens d'épicerie de base sont exonérés, on récupère tous les crédits, quelle que soit la situation. Ce n'est que si l'on décide d'exonérer certains aliments que l'on tombe dans le problème de la répartition.

Mais il y avait également une mention au sujet des entreprises non constituées en sociétés dont les ventes taxables sont de moins de 50,000\$ et les taxes nettes à payer inférieures à 1,000\$. . . Excusez-moi.

M. Wood: C'est pour la déclaration annuelle.

M. Friedman: Les petites entreprises non constituées en sociétés qui ont des ventes de moins de 50,000\$ et des taxes nettes à payer inférieures à 1,000\$ sont autorisées à produire une déclaration annuelle. Cela signifie que la marge de la petite entreprise, non constituée en société, doit être inférieure à 13,500\$ à un taux d'imposition de 8 p. 100, et cela ne représente pas beaucoup d'argent. Alors, nous ne pensons pas qu'il y aura beaucoup. . .

Le président: Cela pourrait représenter une règle de minimum trop peu élevé également.

M. Friedman: Oui, et cela concerne la déclaration annuelle.

Passons maintenant à la page 3-2 et jetons un coup d'œil aux versements. Au Canada, nous proposons la remise des versements au cours du mois qui suit la période de taxation. La Nouvelle-Zélande veut se distinguer, alors elle préconise un mois et un jour.

Le président: Et quelle en est la raison?

M. Friedman: Je n'en suis pas certain. Un de vos projets pourrait être de découvrir la raison de ce jour supplémentaire.

Mme Collins: Cela concerne peut-être leur système postal.

Le président: Pourtant, ils vont privatiser les postes.

M. Friedman: Le Livre blanc est muet au sujet de la période d'évaluation. Et je me demande combien de temps l'entreprise devra conserver ces dossiers? J'ai passé la matinée à tenter de découvrir quelles sont les périodes d'évaluation en vigueur dans les autres pays, et là encore, c'est le silence absolu. Pour le Royaume-Uni, on m'a répondu qu'il fallait garder les dossiers pendant six ans.

[Text]

You want to have some certainty. You do not want to have to pay this tax and then find out after three, four or five years that you have been doing it all along incorrectly and then have to go back. One hopes we do not have the situation that we have in the federal sales tax area right now, where you have a four-year assessment period and a two-year refund period. I think it has to be very clear as to what your obligations are and how long you can wait until you stop sweating. I think that is important to find out.

Now, it is interesting that in Norway—and we talked about part of this this morning—you can elect to file returns for periods as short as one week. If you have been involved in large capital projects where there are large expenditures of cash on which taxes are now charged, you must be able to recover those taxes as quickly as possible.

It is important that refunds be almost instant. If you decide to build an auto plant, say, in Ontario, you can buy all the machinery and equipment federal sales tax-exempt currently. What you are now saying is, no, you cannot do this any more. If you want to buy \$200 million worth of equipment to stick into an auto plant, we want you to pay your supplier \$26 million in VAT or GST and then we will get around to refunding you that money. Remember, that auto manufacturer is not going to start producing for maybe months or for years, so it is important in those situations that you can assure whoever wants to set up a plant anywhere in Canada that they are not looking to greater costs. It is very important that you do not increase the carrying costs of such businesses.

The white paper provides for interest on unpaid refunds one month after the end of the tax period. I think in situations where large amounts of tax are involved, there probably should be some way of ensuring that taxes are returned to purchasers as quickly as possible.

• 1620

I do not mean to be one-sided. On the other side, the government is going to have a large policing problem, where you do have this requirement to return funds within a month. Unless you have large police forces to go out there and audit such claims, there has to be some way to ensure that all the claims are bona fide; that if I am a middleman or a manufacturer or a wholesaler and I run into cash problems, I do not make up fictitious claims and submit a refund claim and get the money in the mail within a month.

So there are two sides to it. On one side you have to ensure that where there is a bona fide claim for taxes on purchases, that will be returned to the business as quickly

[Translation]

Il faut pourtant qu'une période soit précisée. Qui voudrait avoir à payer cette taxe puis à constater trois, quatre ou cinq ans après qu'il s'y prenait mal depuis le début et devoir revenir en arrière? Il est à espérer que nous ne reproduirons pas la même situation que dans le cas actuel de la taxe de vente fédérale où la période d'évaluation est de quatre ans et la période de remboursement de deux. J'estime que l'on devrait pouvoir être clairement fixé sur le moment à partir duquel on peut respirer.

Fait intéressant, en Norvège... et nous en avons parlé ce matin... on peut choisir de produire une déclaration pour des périodes aussi courtes qu'une semaine. Si vous avez conclu un projet d'investissement important qui vous a occasionné de lourdes dépenses qui sont maintenant taxables, vous devez pouvoir être en mesure de récupérer ces taxes le plus rapidement possible.

Ces remboursements doivent absolument être quasi instantanés. Si vous décidez de construire une usine d'automobiles, en Ontario, par exemple, la totalité de l'équipement et des machines que vous achetez est, à l'heure actuelle, exonérée d'impôt fédéral. Or, ce que vous proposez maintenant, c'est de nous dire, non, vous ne pouvez plus faire cela. Si vous voulez acheter 200 millions de dollars de matériel à mettre dans une usine d'automobiles, nous nous attendons à ce que vous payiez votre fournisseur 26 millions de dollars en TVA ou TBS, puis nous vous rembourserons cet argent en temps et lieu. N'oublions pas que la production de ce fabricant d'automobiles ne débutera pas avant des mois, voire des années; il est donc important, dans ces cas, que vous vous assuriez de ne pas imposer des coûts supplémentaires à quiconque veut établir une usine quelque part au Canada. Il est extrêmement important que vous n'augmentiez pas les frais incidents de telles entreprises.

Le Livre blanc prévoit le versement d'un intérêt sur les remboursements non payés un mois après la fin de la période de taxation. Je pense que, dans les situations où de gros montants de taxe sont en jeu, il y aurait peut-être lieu de prévoir des mécanismes qui permettraient le remboursement de ces taxes aux acheteurs le plus rapidement possible.

Mais je ne suis pas partial. De l'autre côté, le gouvernement aura un gros problème de contrôle s'il est tenu de rembourser ces montants en un mois ou moins. A moins que l'on mette sur pied des effectifs de contrôle qui iront sur place vérifier ce genre de réclamations, il va falloir trouver un moyen de s'assurer que toutes les réclamations sont de bonne foi, que si, par exemple, je suis un intermédiaire, un fabricant ou un grossiste qui se débat dans des problèmes de liquidités, je ne soumetts pas une fausse demande de réclamation pour obtenir l'argent par retour de courrier en moins d'un mois.

Il y a donc deux côtés de la médaille. D'un côté, il faut s'assurer que toute réclamation de bonne foi pour le remboursement de la taxe payée sur des achats sera réglée

[Texte]

as possible, or you have to provide enough interest to compensate business for its increased carrying costs; but on the other hand, the system must have some safeguards built into it to ensure it is not another money grab.

Mrs. Collins: Do you have, compared with other jurisdictions that have this, an idea of the administrative costs? It just seems so complex.

Mr. Friedman: I am not really sure. When I got into the value-added tax system, I had always heard of the system as being called "self-policing". Having looked at it, I conclude you need a lot of police people to "self-police" this, or to allow for the self-policing to take place.

Mrs. Collins: But is it the same? I am probably wrong about this. The original guy sends in his \$8. Then he claims it back. The next guy along sends in his \$16, and he claims it back. The next guy sends in his \$32, and he claims it back. Ultimately the consumer pays his \$64 and the government gets its money. But it seems to me it is the same money that is going back and forth, about three or four times—

Mr. Friedman: Yes.

Mrs. Collins: —each time having an administrative cost added onto it, from a bunch of computer operators and auditors. Is that not what happens in that kind of system?

Mr. Friedman: If you have overlapping sales and purchases, then all you would ever have is the difference being remitted at each level. But as we said this morning, if everybody sits on his inventory over one period, then yes. . . If you are selling to me, you sell to me for \$108; I get the \$108 invoice and I say, hey, I am not going to sell this steel for three months. I can then file a refund claim for the \$8.

Now, my pen slips, and instead of getting a refund claim for \$8, I now have a refund claim for \$800. Because Revenue Canada has to give me this money back within a month or pay me, hopefully, prime rate of interest, I get the cheque in the mail and. . .

It is a manpower problem.

Mr. Cassidy: Your micro-enterprises create one problem, because they keep their accounts in a shoe box, etc. I presume it is part of the training of any accountant that you have to deal with a few of those people who have gotten themselves in a mess, and you have to try to sort them out. For larger enterprises, though, in a profit-making position, should they not normally be remitting on a fairly regular basis? And when they remit, they have to choose their reporting period and they cannot vary it all over the place. They have to stick to it, once a quarter

[Traduction]

à l'entreprise le plus rapidement possible, ou alors il faudra prévoir verser à celle-ci suffisamment d'intérêts pour la dédommager d'avoir eu à assumer des frais incidents accrus; mais d'un autre côté, le système doit avoir des mécanismes de sécurité pour éviter qu'il ne représente un moyen rapide de trouver de l'argent.

Mme Collins: Avez-vous une idée, par rapport aux autres juridictions où cela est en vigueur, des frais administratifs? Cela me semble tellement complexe.

M. Friedman: Je n'en ai pas une idée précise. Lorsque je me suis penché sur le système de la taxe à la valeur ajoutée, j'ai entendu répéter que le système est «autocontrôlé». Après avoir étudié la chose de plus près, j'en ai conclu qu'il faudra un nombre impressionnant de contrôleurs pour cet «autocontrôle», ou alors qu'il faudra laisser cet autocontrôle se faire naturellement.

Mme Collins: Mais cela revient-il au même? Je me trompe probablement. La personne initiale envoie ses 8\$. Puis elle en réclame le remboursement. La personne suivante envoie ses 16\$ puis elle en réclame le remboursement. La personne qui vient ensuite envoie ses 32\$ puis en réclame le remboursement. En fin de compte, le consommateur paie ses 64\$ et le gouvernement obtient son argent. Mais il me semble que c'est le même argent qui va et vient trois ou quatre fois. . .

M. Friedman: Oui.

Mme Collins: . . . mais à chaque fois viennent se greffer les frais administratifs entraînés par une série d'opérateurs d'ordinateurs et de vérificateurs. N'est-ce pas ce qui se passe dans ce genre de système?

M. Friedman: S'il y a recoupement des ventes et des achats, tout ce que vous avez alors est la différence qui est versée à chaque niveau. Mais comme nous l'avons dit ce matin, si chacun retient ses stocks pendant une période, alors oui. . . Si vous me vendez quelque chose à 108\$ j'obtiens une facture de 108\$. Et si je me rends compte que je ne vais pas vendre cet acier pendant trois mois, je peux envoyer la demande de remboursement des 8\$ immédiatement.

Mais, je me trompe, et au lieu de demander le remboursement de 8\$ j'inscris 800\$. Et étant donné que Revenu Canada est tenu de me remettre cet argent en l'espace d'un mois ou moins, ou alors de me verser, je l'espère, un intérêt accumulé au taux préférentiel, je reçois le chèque par le courrier et. . .

C'est un problème de main-d'oeuvre.

M. Cassidy: Vos micro-entreprises créent un problème car elles tiennent leurs livres dans une boîte de chaussures. Je suppose que cela fait partie de la formation de comptable que d'avoir à traiter avec ces quelques personnes qui se sont enlisées dans un borbier, et d'essayer de les en sortir. Mais les grandes entreprises, celles qui réalisent des profits, ne devraient-elles pas normalement envoyer leurs versements de façon régulière? Et lorsqu'elles envoient leurs versements, elles doivent choisir leur période de rapport qu'elles ne

[Text]

or once a month. They cannot go back and forth depending on whether it is to their advantage or not, as I understand it. However, in their reporting period, would they not normally have an excess of sales over purchases, normally have a certain amount of value added? Therefore would they not normally be in a position where the tax they have collected exceeds the credits to which they become entitled?

Mr. Friedman: That generally may be the case.

• 1625

If you decide to zero rate food, then there will be stores all the way from the Loblaws down to the corner store who will perhaps have an excess of credit over taxable sales. If you run the corner store and times are tough and you have to file a refund claim, somebody is going to have to police that refund claim.

You are right. In large organizations where they are involved in making taxable sales at the manufacturer and the wholesaler level, generally that will be the case, there will be no problems, and the sales will exceed tax purchases. The question still is, by how much do the sales exceed tax purchases, what is the normal amount? Even those things have to be policed somehow.

Mr. Cassidy: In addition, even if a business is in a loss-making position, is not profitable, the chances are that there is still some kind of a gross profit between the cost of their inputs and the value of the sales, is there not?

Mr. Friedman: That is correct.

Mr. Cassidy: If there is not, then they really are in trouble. There is bound to be a certain amount of value added, even if it is not sufficient for them to be in a profit-making position.

Mr. Friedman: That is right, yes.

Mr. Cassidy: What then if you inject capital expenditures into this? I would like you to maybe comment on two situations: one, where you have a business with, let us say, \$100,000 of turnover a month, which invests \$1 million in new plant in a particular month. Is it entitled to take back the entire amount of tax credits from the tax paid on the inputs into that plant all in one go?

Mr. Friedman: Yes. Let us say a plant makes coats. Currently that coat-making company can buy \$1 million worth of equipment, federal sales tax exempt, and in some provinces even provincial sales tax exempt.

With this new scheme, you are going to have an 8% value-added tax, or GST, starting January 1 of whatever the year there is an 8% tax. That million dollars worth of

[Translation]

peuvent plus modifier n'importe comment après. Elles doivent la respecter, qu'elle aient choisi le trimestre ou le mois. Elles ne peuvent passer de l'un à l'autre selon la situation qui les avantage le mieux, si je comprends bien. Cependant, dans la période de rapport, n'auront-elles pas normalement un excédent de ventes sur les achats, une certaine proportion de valeur ajoutée? Ainsi donc, ne se trouveront-elles pas normalement dans la situation où la taxe qu'elles auront perçue dépasse les crédits auxquels elles auront droit?

M. Friedman: Il pourrait en être généralement ainsi.

Si vous décidez d'affecter aux aliments un taux nul, il se trouvera alors toute une série de magasins, partant du Loblaws à l'épicerie du coin, qui pourront avoir un excédent de crédit sur des ventes taxables. Si vous êtes propriétaire du magasin du coin, que les temps sont durs et que vous devez envoyer une demande de remboursement, il est évident que quelqu'un devra contrôler cette demande.

Vous avez raison. Dans les grandes entreprises qui ont des ventes taxables au niveau du fabricant et du grossiste, il n'y aura pas de problème et les taxes de vente dépasseront les taxes d'achat. Mais la question demeure, de combien les ventes dépasseront-elles les achats, et quel est le montant normal? Même ces choses-là devront être contrôlées d'une façon quelconque.

M. Cassidy: Par ailleurs, n'est-il pas vrai que même si une entreprise est en position de perte, n'est pas profitable, il y a de fortes chances qu'elle ait tout de même une certaine marge de profit brut entre le coût de ses intrants et la valeur de ses ventes?

M. Friedman: C'est exact.

M. Cassidy: Sinon, elle est vraiment dans de mauvais draps. Elle doit forcément avoir un certain montant de valeur ajoutée, même si ce montant ne suffit pas à la rendre profitable.

M. Friedman: C'est exact, oui.

M. Cassidy: Qu'arrive-t-il si vous ajoutez les dépenses en capital à cela? J'aimerais que vous me parliez de deux situations. Prenons tout d'abord celle de l'entreprise qui a, disons, 100,000\$ de roulement par mois et qui investit 1 million de dollars dans une nouvelle usine au cours d'un mois donné. Est-elle autorisée à récupérer le montant complet des crédits d'impôt pour l'impôt payé sur ses intrants dans cette usine, en une seule fois?

M. Friedman: Oui. Supposons que cette usine produit des manteaux. À l'heure actuelle, cette usine de manteaux peut acheter 1 million de dollars d'équipement sans payer de taxes fédérales et, dans certaines provinces, sans payer de taxes provinciales non plus.

Dans ce nouveau système, vous aurez, à compter du 1^{er} janvier de l'année au cours de laquelle ce système entre en vigueur, 8 p. 100 de taxe à la valeur ajoutée, ou

[Texte]

equipment will cost that coat factory \$1.08 million, if my math is right.

That coat factory makes \$100,000 sales in that month, its net credit is \$72,000. It is not getting an advantage; all it is doing is getting back most of the \$80,000, or actually it is getting back all of the \$80,000 but paying \$8,000 on its sales—so it is getting back \$72,000.

Mr. Cassidy: There is, however, a reshuffling taking place, because right now as a consumer, I am being spared a certain amount of tax, because that company is in fact paying federal tax on a number of the inputs that go into the building plant.

Mr. Friedman: They would pay federal sales tax on anything that is not used primarily and directly. If the coat factory uses a computer for its payroll, or uses desks, or uses shelving in its warehouses, those things would probably be subject to federal sales tax. Under that or GST, those would all be clear.

The Chairman: According to the white paper I think it says:

Refunds will be paid after review and approval by the tax authority.

They are so fast at paying refunds now that we would probably see them paying refunds a month or two months or six months or a year and a half later, at some sort of a statutory rate, which would probably be half of prime or something.

Mr. Friedman: Be careful, because if it is half of prime you are asking the business somehow to raise the additional capital required to borrow money at prime plus one, prime plus—

The Chairman: That is a usual Department of Finance and Revenue Canada routine. I do not know why they would change and vary their routine. Do you have any reason to believe they might? I mean they now decide to lend you money, for example, at 9%.

• 1630

Mr. Friedman: As the government is replacing a system where tax did not have to be paid on plan with a system where you pay the tax and receive a refund, the refunds have to be—

The Chairman: The fact is that we can hold our breath or their refunds.

Mr. Friedman: Currently they have to start paying interest after 60 days. But the refund claim has to be completed in their eyes.

[Traduction]

de TBS. Cet équipement de 1 million de dollars coûtera en réalité à l'usine de manteaux 1,08 million de dollars, si mes calculs sont exacts.

Cette usine a 100,000\$ de ventes au cours du mois et son crédit net est de 72,000\$. Elle ne retire aucun avantage, tout ce qu'elle fait c'est de récupérer la majeure partie de ses 80,000\$, ou plutôt, de récupérer la totalité de ses 80,000\$, mais de payer 8,000\$ sur ses ventes—donc elle récupère 72,000\$.

M. Cassidy: Il n'en demeure pas moins qu'il y aura un certain remaniement, puisqu'à l'heure actuelle, en tant que consommateur, un certain montant de taxes m'est épargné puisque cette entreprise paie en réalité une taxe fédérale sur un grand nombre des intrants qui entrent dans la construction de l'usine.

M. Friedman: Elles paient une taxe de vente fédérale sur tout ce qui n'est pas utilisé principalement et directement. Si cette usine de manteaux se sert d'un ordinateur pour son système de paie, ou se sert de bureaux, ou encore d'étagères dans ses entrepôts, toutes ces choses seront probablement assujetties à la taxe de vente fédérale. Dans le cadre de ce système, ou de la TBS, ces articles seraient exonérés.

Le président: Il est dit dans le Livre blanc, je pense, que

les remboursements seront versés après que la demande ait été examinée et approuvée par les autorités fiscales.

À l'heure actuelle, les remboursements sont versés à un tel rythme que nous pouvons nous attendre à les voir payer ces remboursements un, deux, six ou dix-huit mois plus tard, avec des intérêts quelconques calculés probablement à la moitié du taux d'intérêt préférentiel.

M. Friedman: Attention, car si ce taux est la moitié du taux préférentiel, vous exigez de l'entreprise qu'elle assume la responsabilité de se procurer la différence en empruntant de l'argent à un taux d'intérêt qui serait normalement le taux préférentiel plus un, plus. . .

Le président: C'est comme cela que fonctionne généralement le ministère des Finances et Revenu Canada. Je ne sais pas s'ils décideront de changer leur politique. Pensez-vous qu'ils le feront? À l'heure actuelle, ils décident de prêter de l'argent à, par exemple, 9 p. 100.

M. Friedman: Comme le gouvernement remplace un système dans lequel vous n'étiez pas obligés de payer une taxe sur le régime par un autre dans lequel vous la payez et êtes ensuite remboursé, ces remboursements doivent être. . .

Le président: Le fait demeure qu'il ne faut pas être pressé pour être remboursé.

M. Friedman: Actuellement, un intérêt doit être versé au bout de 60 jours. Mais la demande de remboursement doit être remplie devant eux.

[Text]

Mr. Wood: The European experience has been that you need a track record with that business. For instance, if that business is an exporter and every month they file a claim of this size, then the administration gets some confidence. This looks like the position the company is normally in and they can speed up the refund process. It may only be the big one where the guy has made a gigantic capital expenditure in that month. He suddenly comes up with a big refund and that is going to flag it for the authorities. They are not going to want to write that cheque, I am sure, without—

The Chairman: They would want a put-in-use rule, for example, on the large capital item before they would pay the refund.

Mr. Wood: Possibly.

The Chairman: Why not? They admit these things.

Mr. Wood: Some of the European countries do not even give you the credit back. You just keep holding it forever in abeyance against future sales.

The Chairman: What would be wrong with that?

Mr. Wood: Ask some of your business constituents.

Mr. Friedman: The U.K. has gone the other way in fact. They provide for credit transfers electronically into your bank account. So now you do not have to wait for Canada Post to deliver your refund cheque. It goes right into your bank account.

The Chairman: Wow! Electronic transfer—

Mr. Friedman: That is one way. New Zealand pays interest on refunds that take more than 15 working days after receipt of a refund claim. I guess somebody stamps it, that it has been received on such and such a day. If it is still on their desks after 15 working days they will send you interest.

Mr. Weyman: I think there is one point to add to this, looking at it from the government's point of view. If you have suppliers who are filing quarterly in the normal way, they will actually remit the tax on their sales relevant to that quarterly remittance and filing period. However, a business that is purchasing from that supplier, let us say in the first month of that quarter, can be claiming a refund by filing monthly. Therefore, if anything, selection is against the government in this area of refunds. One could expect that those who are seeking refunds on a regular basis, like exporters, would be opting for the monthly filing, because all of their suppliers, particularly the regular-sized businesses, would be filing quarterly. Therefore the government will be refunding money at some period, one, two, or maybe even three months before they have actually collected it.

[Translation]

M. Wood: En Europe, il faut que la réputation de la société soit connue. Par exemple, s'il s'agit d'un exportateur qui dépose chaque année une demande de cette importance, l'administration apprend à lui faire confiance. Comme la situation paraît normale pour la société, on peut accélérer le processus de remboursement. Par contre, s'il s'agit d'une grosse demande de remboursement parce que l'intéressé a fait d'énormes dépenses d'immobilisations ce mois-là, l'importance du remboursement attire l'attention des autorités et je suis bien certain que celles-ci ne voudront pas signer de chèque sans. . .

Le président: Elles voudraient une règle de mise en service, par exemple, applicable à des immobilisations importantes de ce genre avant d'effectuer le remboursement.

M. Wood: C'est possible.

Le président: Pourquoi pas? Elles le reconnaissent.

M. Wood: Certains pays européens ne vous remboursent même pas le crédit. Chez eux, l'administration se contente de le garder définitivement en réserve en vue de l'appliquer aux ventes futures.

Le président: Qu'y a-t-il à redire à cela?

M. Wood: Posez donc la question aux gens d'affaires de votre circonscription.

M. Friedman: Le Royaume-Uni a en fait adopté une démarche inverse. Dans ce pays, les crédits sont électroniquement transférés sur votre compte bancaire. Vous n'êtes donc pas obligé d'attendre que la Poste canadienne vous livre votre chèque de remboursement. Le versement se fait directement sur votre compte.

Le président: Formidable! Un transfert électronique. . .

M. Friedman: C'est une façon de procéder. La Nouvelle-Zélande verse un intérêt sur les sommes payées plus de 15 jours ouvrables après réception d'une demande de remboursement. Je suppose que quelqu'un tamponne celle-ci pour indiquer qu'elle a été reçue tel ou tel jour. Si la demande traîne encore sur un bureau au bout de 15 jours ouvrables, on vous paie un intérêt.

M. Weyman: Du point de vue du gouvernement, je crois qu'il y a une observation supplémentaire à faire. Si vos fournisseurs font une déclaration trimestrielle normale, ils versent la taxe de vente correspondant à ce versement trimestriel et à la période de dépôt. Cependant, l'entreprise qui fait un achat à un tel fournisseur, au cours du premier mois du trimestre par exemple, peut demander un remboursement en faisant une déclaration mensuelle. Dans un tel cas, c'est donc le gouvernement qui est en fait perdant. On pourrait penser que ceux qui font des demandes de remboursement régulières, comme les exportateurs, choisiraient la méthode de la déclaration mensuelle puisque tous leurs fournisseurs, en particulier les sociétés de taille normale, font, elles, des déclarations trimestrielles. Le gouvernement effectuera donc un remboursement, un, deux, ou même trois mois avant d'avoir recouvré l'argent.

[Texte]

Mr. Cassidy: Is that not sorted out? I would assume that 80% to 90% of your revenues would in fact come from the larger organizations which are filing monthly. The condition that David refers to might occur in some cases, but is not going to have a significant drag effect on revenues.

Mr. Hoffman: What you say is correct. In the U.K. the first 1,000 largest firms generate over 80% of all tax collected.

Mr. Cassidy: When you get down to it, you are really only deferring 1% or 2% of your revenues because of people who are claiming early and paying late.

Mr. Hoffman: That is right.

Mr. Friedman: "Cashflow Implications to Business": Business is penalized if it must pay for tax content of purchases prior to receiving refund from government or payments from customers. But the business benefits if you have to remit only once a quarter and you are a smaller business: you ring up the cash register and you have the cash on hand. To the extent that you collect money on the first day of that quarter, you end up holding on to that payment for the three-month period. It is fairly self-explanatory. There are pluses and minuses.

• 1635

Page 3-3, the appeal procedures. The white paper is silent. It is not covered by the white paper. I would assume that the appeal procedures will be as good, if not better, than the ones provided currently for income tax or excise tax disagreements. There is really nothing more I can add to that. Unless you gentlemen have something to add to it, that probably is the most straightforward part of this little exercise.

Compliance costs, I would like to refer again back to page 106 and what we read this morning:

In the calculation of a business' taxable income for income tax purposes, purchases and sales will be recorded net of any sales tax content. Similarly, acquisitions of depreciable property will be recorded net of tax, and capital cost allowance will be calculated on this tax-excluded cost.

We are asking taxpayers to accumulate either the tax or purchases. As well, we are asking them, when they are recording purchases on their books of original account for income tax purposes, they net out any tax content of such purchases. So I suspect that this will add to compliance costs by most businesses.

In addition, the more complex the tax becomes, the greater such costs. If a businessman has to track tax—we have just covered this, this morning—by ten provinces and two territories, the compliance costs may increase even more considerably.

[Traduction]

M. Cassidy: Tout cela n'est-il pas réglé? Je serais tenté de penser que 80 à 90 p. 100 de vos recettes proviennent en fait des grandes sociétés qui font une déclaration mensuelle. Le cas auquel David fait allusion se présente peut-être parfois, mais il ne devrait guère avoir d'effet sur les recettes.

M. Hoffman: Vous avez raison. Au Royaume-Uni, plus de 80 p. 100 des recettes fiscales sont assurées grâce aux 1,000 plus grandes sociétés.

M. Cassidy: Dans la pratique, vous ne reportez que 1 ou 2 p. 100 de vos recettes à cause de ceux qui font promptement une demande de remboursement et qui paient plus tard.

M. Hoffman: C'est exact.

M. Friedman: Répercussions sur l'encaisse des entreprises: une entreprise est pénalisée si elle doit payer la taxe de vente avant d'être remboursée par le gouvernement ou d'être payée par ses clients. Elle profite cependant de la situation s'il s'agit d'une petite entreprise et ne fait que des versements trimestriels: il lui suffit d'un petit coup sur le timbre de la caisse enregistreuse et l'argent est là. Dans la mesure où vous recouvrez de l'argent le premier jour du trimestre, vous le gardez à votre disposition pendant trois mois. C'est assez clair en soi. Il y a des avantages et des inconvénients.

Page 3-3, les procédures d'appel, le Livre blanc ne dit rien là-dessus. J'imagine que ces procédures seront aussi bonnes, sinon supérieures, que celles qui sont actuellement prévues en cas de différend concernant l'impôt sur le revenu ou la taxe d'accise. À moins que vous n'ayez vous-même une remarque à faire, c'est probablement là la partie la plus claire et la plus directe de ce petit travail.

«Coûts d'observation»—permettez-moi de vous renvoyer encore une fois à la page 106 et à ce que nous avons lu ce matin:

Dans le calcul du revenu imposable d'une entreprise aux fins de l'impôt sur le revenu, les achats et les ventes seront enregistrées déduction faite de la taxe. De même, les achats de biens amortissables seront enregistrés déduction faite de la taxe et la déduction pour amortissement sera calculée sur cette base.

Nous demandons aux contribuables d'accumuler la taxe ou les achats y donnant lieu. Nous leur demandons également, lorsqu'ils inscrivent leurs achats sur leur registre aux fins de l'impôt du revenu, de déduire les taxes de ces achats. Et j'ai donc bien l'impression que cela ajoutera aux coûts d'observation pour la plupart des entreprises.

En outre, plus la taxe devient complexe, plus ces coûts augmentent. Si un homme d'affaires est obligé de tenir le compte des taxes... nous en avons également parlé ce matin... pour 10 provinces et deux territoires, les coûts d'observation risquent d'augmenter encore bien plus.

[Text]

Underground economy: We spent a little time on this this afternoon. There is incentive only by consumers or businesses with little taxable inputs to attempt to manoeuvre around this system.

The Chairman: That applies to a great number of services though. Take the accounting profession. There is not very much in the way of expenditures. You use the computer you have already written off to do somebody's tax return, and you fill out the government form. Now, there is no expenditure.

Mr. Friedman: Well, unless—

The Chairman: You get paid in cash.

Mr. Cassidy: Not to mention lawyers as well.

The Chairman: Lawyers, of course, all the time. I am thinking of one of the chaps in my former law firm who does nothing but go to police court-type things. He takes only a copy of the Criminal Code—no file or anything.

Mr. Friedman: I do not want to argue with you, but I certainly know that in downtown Toronto, no office buildings donate space to accountants and lawyers. There are considerable input costs to most professionals. But there is only incentive for an accountant or lawyer to do something illegal if his or her customer is not another business, because if it is another business, they will get credit for all the purchases.

The Chairman: Yes.

Mr. Friedman: You are correct. If you are a divorce lawyer or you do only personal tax or estate planning-type work, if you choose to not act within the confines of the law, yes, there is opportunity to get around it. But they—

The Chairman: There is opportunity to get around it in the Income Tax Act already. I mean, you just do not declare the work for income tax purposes either, the fee.

Mr. Friedman: Are there lawyers who do this?

The Chairman: I am sure there are.

Some hon. members: Oh, oh!

Mr. Warner: You may be called before an inquiry.

The Chairman: I am sure there are.

Mr. Cassidy: Whenever he speaks like that, he speaks the verity.

The Chairman: I am sure there are probably accountants who do it too. That is always there. The question is, is this going to increase the incentive to just not bother declaring?

Mr. Friedman: I guess—

The Chairman: I mean, you put another 8% charge—in other words, whatever the tax is, as another incentive

[Translation]

«Economie en noir»: nous en avons un peu parlé cet après-midi. Seuls les consommateurs ou les entreprises ayant des intrants imposables réduits sont tentés d'essayer de déjouer le système.

Le président: Cela vaut cependant pour un grand nombre de services. Prenez les comptables. Ils n'ont pas beaucoup de frais. Tout ce qu'il leur faut c'est un ordinateur qu'ils ont déjà passé par profits et pertes pour préparer la déclaration d'impôt d'un client, après quoi vous remplissez le formulaire du gouvernement. Ils n'ont donc aucuns frais.

M. Friedman: Eh bien, à moins que. . .

Le président: Vous vous fassiez payer en espèces.

M. Cassidy: Je ne parlerai même pas des avocats.

Le président: Les avocats, bien entendu, le font tout le temps. Cela me fait penser à l'un des employés de mon ancien cabinet qui passe tout son temps dans les cours de police. Tout ce qu'il amène avec lui est un exemplaire du Code criminel: sans même de dossier.

M. Friedman: Je ne voudrais pas vous contredire, mais je sais pertinemment que dans le centre-ville à Toronto, les bureaux qu'occupent les comptables et les avocats ne leur sont pas offerts gratuitement. La plupart des membres des professions libérales ont des coûts d'intrants considérables. La seule raison pour laquelle un comptable ou un avocat serait tenté de faire quelque chose d'illégal, c'est lorsque son client n'est pas une autre entreprise, car si c'en est une, tous les achats donnent droit à crédit.

Le président: Oui.

M. Friedman: Vous avez raison. Si vous êtes avocat spécialisé dans les questions de divorce ou si vous ne vous occupez que d'impôt des particuliers ou de planification successorale, la possibilité d'enfreindre la loi existe. Mais ils. . .

Le président: Cette possibilité existe déjà dans la Loi sur l'impôt sur le revenu. Vous vous contentez de ne pas déclarer vos honoraires aux fins de l'impôt sur le revenu.

M. Friedman: Y a-t-il des avocats qui le font?

Le président: J'en suis certain.

Des voix: Oh, oh!

M. Warner: Vous risquez de vous faire convoquer devant une commission d'enquête.

Le président: Je suis certain que cela arrive.

M. Cassidy: Quand il parle sur ce ton, il dit toujours la vérité.

Le président: Je suis sûr que certains comptables le font probablement aussi. La possibilité est toujours présente. La question est la suivante: cela va-t-il encourager les gens à ne pas se donner la peine de faire une déclaration?

M. Friedman: Je suppose. . .

Le président: Vous ajoutez 8 p. 100 à la taxe, ce qui est un encouragement supplémentaire pour ne pas faire de

[Texte]

to not declare, in which case you do not declare for income tax purposes either.

• 1640

Mr. Friedman: Yes, I agree with you, and I assume that what you have said about lawyers and accountants is just in jest, but there may be other groups that would be more likely to do this. The point is, the lower the amount of your tax purchases, such as office rents, computers, temporary help services, the greater the incentive to do this. I am not sure, but I think there has been some work performed in Europe on the underground economy, and it is more severe in some countries than in others.

The Chairman: About a year ago we were doing preliminary studies with respect to proposed tax changes, and at that particular point it was not indicated that tax reform would exclude the sales tax. So John Bulloch was here with respect to this particular issue, claiming that this type of tax would significantly increase the underground economy. I was wondering if you had any thoughts on that, the three of you.

Mr. Hoffman: Well, the evidence on this is pretty limited, simply because it is very difficult to measure the underground economy. We know that in some countries in Europe, some studies indicate the underground economy has increased as the VAT rate has gone up; on the other hand we also know that in a jurisdiction like Hong Kong with a flat income tax rate of 10%, many people think income-tax evasion is as high or higher than it is in countries like Sweden with very high marginal tax rates.

The survey I have done of research in public finance indicates very tenuous links between rates of taxation and moves in the underground economy. That does not suggest that they are not there; it just means it is very difficult to get hard evidence on it.

Mr. Cassidy: The two tax filing systems side by side, the sales tax and the income tax, will in fact tend to reinforce one another, particularly if this is a federal tax, which hits a lot more payors than the present manufacturers' sales tax. So people with a business, for example... if they report that their business grossed \$100,000, even though the profit was only a few thousand dollars on their income tax, that is going to be of some interest to the sales tax people if they find out that business was not remitting any sales tax on a turnover of \$100,000.

Mr. Hoffman: You see, you have the auditor coming in now, looking at two tax calculations. If they do not mesh, we can see something is wrong.

[Traduction]

déclaration, auquel cas vous n'en produisez pas non plus aux fins de l'impôt sur le revenu.

M. Friedman: Oui, je suis d'accord avec vous, et je présume que vous plaisantiez lorsque vous parliez des avocats et des comptables, mais il se peut que d'autres groupes soient plus portés à le faire. Ce qui compte c'est que plus faible est le montant de vos achats assujettis à une taxe, tels que les loyers de bureaux, les ordinateurs, les services d'aide temporaire, plus grande est la tentation de le faire. Je n'en suis pas absolument certain, mais il me semble que des travaux ont été faits en Europe sur l'économie au noir, où le phénomène est plus répandu dans certains pays que dans d'autres.

Le président: Il y a environ un an nous avons fait des études préliminaires sur les changements fiscaux envisagés, et à l'époque il n'avait pas été précisé que la réforme fiscale excluait la taxe de vente. John Bulloch a précisément fait valoir que ce type de taxe accroîtrait considérablement l'économie au noir. Qu'en pensez-vous, tous les trois?

M. Hoffman: Nous ne possédons guère de données là-dessus pour la simple raison qu'il est très difficile de mesurer l'importance de l'économie au noir. Nous savons que des études montrent que dans certains pays européens, cette économie a augmenté en même temps que la TVA; en revanche, nous savons également qu'à Hong Kong, où il existe un taux uniforme de 10 p. 100, nombreux sont ceux qui pensent que l'évitement de l'impôt sur le revenu est aussi répandu ou plus que dans des pays comme la Suède où les taux marginaux sont extrêmement élevés.

L'enquête que j'ai fait consacrer à la recherche sur les finances publiques révèle l'existence de liens très ténus entre les taux d'imposition et l'importance de l'économie au noir. Cela ne signifie pas qu'ils n'existent pas, mais tout simplement, qu'il est très difficile de le prouver.

M. Cassidy: Côte-à-côte, les deux systèmes de déclaration, de la taxe de vente et de l'impôt sur le revenu, auront en fait tendance à s'étayer mutuellement, en particulier s'il s'agit d'une taxe fédérale, qui frappe un beaucoup plus grand nombre de payeurs que la taxe de vente à la fabrication actuelle. Donc, les propriétaires d'une entreprise, par exemple... s'ils déclarent des revenus bruts de 100,000 dollars, ils vont attirer l'attention des gens qui s'occupent de la taxe de vente si ceux-ci s'aperçoivent qu'aucune taxe de vente n'a été versée sur un chiffre d'affaires d'un tel montant, et cela, même si, aux fins de l'impôt sur le revenu, leur profit n'a été que de quelques milliers de dollars.

M. Hoffman: C'est là où le vérificateur entre en jeu; il examine les calculs relatifs à la taxe et à l'impôt et s'ils ne concordent pas, il peut voir qu'il y a quelque chose d'anormal.

[Text]

Mr. Cassidy: They could also match them by computer. It is a rather simple thing to match—

Mr. Hoffman: Yes.

Mr. Cassidy: —some of that, to spit out the ones that seem to be. . .

Mr. Hoffman: That seems likely.

Mr. Friedman: But the dentist who now does not report certain income has a greater incentive, because now you have added an extra tax on top of it. It may either force him to comply or, if he is already not complying, push him away even further from doing the right thing. So if you are a professional and you now take \$100 income in cash, put it in your pocket, maybe with the tax coming at 8% you would tell you customer: I am not going to charge \$108; I am only going to charge you \$104. You are now \$4 up on what you were before.

Mr. Cassidy: Yes, yes.

Mr. Friedman: The consumer is happy because he is \$4 better off than if he had gone to a bona fide retailer of those services.

Mr. Cassidy: Are you suggesting it is not clear that rate is correlated with a degree of avoidance in any appreciable degree?

Mr. Hoffman: There does not seem to be much hard evidence to suggest that is the case.

Miss Nicholson: The advocates of consumption tax generally hold out as one of the advantages that no one escapes, whereas it is relatively easy to escape income tax, they claim. But you would say it is not that black and white, or would you?

Mr. Friedman: If you make all your purchases from large department stores and large financial institutions and reputable professionals, you will never escape it. If you find individuals or small businesses or even large businesses willing to take a chance, then you can escape it. In fact, we do not know the extent to which people do escape it in Europe. It is unfortunate that you do not know the extent of it, because if you do not know it is out there, how can you measure how much of it is out there that you do not know about? It is therefore very difficult to come to terms with it, but it is certainly not a perfect tax; it is not self-policing and it is not secure. However, to the extent that the top 100 or 1000 businesses collect 80% to 90% of your revenues, the question most governments will ask is whether the leakage is something they can live with, whether it is better than the system they now have. Nothing is perfect. I guess where we started last night is that you are not going to get a perfect system, but the question is how close you can get to it.

[Translation]

M. Cassidy: Le rapprochement peut également se faire par ordinateur. L'opération est assez simple. . .

M. Hoffman: Oui.

M. Cassidy: . . . il est assez simple que de faire des rapprochements et d'extraire les cas qui semblent être. . .

M. Hoffman: C'est probable.

M. Friedman: Mais le dentiste qui ne déclare pas certains éléments de son revenu est peu motivé à rechercher des échappatoires puisque vous avez maintenant ajouté une taxe supplémentaire à l'ensemble. Ou bien cela le contraint à observer les règlements, ou s'il les enfreint déjà, cela l'incite encore plus à frauder. Donc si vous êtes professionnel et vous vous mettiez dans la poche 100 dollars en espèces, le fait que la taxe passe à 8 p. 100 vous encouragera peut-être à dire ceci à votre client. Je ne veux vous faire payer 108\$; je vous ferai simplement payer 104\$. Vous vous retrouvez donc avec 4\$ de plus qu'auparavant.

M. Cassidy: Oui, effectivement.

M. Friedman: Le consommateur est ravi parce que cela lui coûte 4\$ de moins que s'il avait obtenu ces services d'un détaillant de bonne foi.

M. Cassidy: Voulez-vous dire qu'il n'existe pas nécessairement de liens précis entre le taux de taxe et le degré d'évitement?

M. Hoffman: Rien ne prouve vraiment que cela soit le cas.

Mme Nicholson: Les partisans de la taxe à la consommation font en général valoir qu'un des avantages qu'elle offre est que personne ne peut y échapper, alors que, selon eux, il est relativement facile d'éviter l'impôt sur le revenu. Mais à votre avis, les choses ne sont pas aussi tranchées?

M. Friedman: Si vous faites tous vos achats dans un grand magasin, auprès de grandes institutions financières et de professionnels honorables, vous n'y couperez pas. Si vous trouvez des particuliers ou de petites entreprises, ou même des entreprises importantes et qui soient disposées à prendre des risques, vous pouvez y échapper. En fait, nous ne savons pas dans quelle mesure les gens réussissent à le faire en Europe. Il est regrettable que vous ne le sachiez pas, car si vous ne savez pas exactement ce qui se passe, comment pouvez-vous mesurer ce que vous ne connaissez pas? Il est donc très difficile de se faire une raison là-dessus, mais cette taxe n'est certainement pas parfaite; il n'y a pas d'autre contrôle, et pas de sécurité. Cependant, dans la mesure où les 100 ou 1,000 plus grandes entreprises recueillent de 80 à 90 p. 100 de vos recettes, la question que la plupart des gouvernements se posent est de savoir si l'importance des échappatoires leur paraît tolérable, et si le nouveau système est préférable au système actuel. La perfection n'est pas de ce monde. Comme nous l'avons vu en commençant hier soir, la question n'est pas d'avoir un système parfait, mais d'en avoir un qui soit aussi proche possible de la perfection.

[Texte]

[Traduction]

• 1645

Mr. Hoffman: From discussions I have had with tax commissions from Europe and from the IMF, which has have been involved in the design of tax systems in Europe, one thing you learn is that all these countries have gone through substantial teething problems. In the first year or two, in every European country, there are substantial problems with fraud, running several percent of total collections it has been estimated. After a year or two, however, the revenue authorities themselves are accustomed with a new system, they have policemen out there. It takes a lot of time and effort to get that system up and running just the way you want it, but then the percentage of lost revenues due to fraud shrinks pretty dramatically. However, there is that teething problem of a couple of years of getting taxpayers and the policemen working in conjunction with one another.

Mr. Layton: Mr. Chairman, just as a follow up to that remark, is there not an opportunity here for us to benefit from that experience? I mean, must we go through the same teething for the same first two years of anticipating a maximum fraud period and then working it out?

Mr. Hoffman: I think you are quite right and I think prudence would suggest that a government bringing this to fruition would want to look very hard at the education process of the Canadian public, would want to look very hard at the systems put into place before the system came into being. The opportunity is there for the government to benefit from foreign experience.

Mr. Layton: Would you say that the penalties and the kind of policing that may be necessary in the first two years might not be as necessary later?

Mr. Hoffman: All of these things have to be explored long before you put the system into being.

Mr. Dorin: I do not know if it is true or not—maybe you could say in fact it is not. It seems to me I heard somewhere that in the experience of some of the European countries or in somebody's experience—I thought it was the British experience—that not only do they collect sales tax but their income tax collections have improved due to the additional compliance, because for one reason or another they had picked up additional tax figures. Perhaps that is just a rumor that has no basis, but...

Mr. Friedman: It is a cross-check—and we talked about this. If one of your customers wanted an invoice and claims a credit using that invoice, and all of a sudden the supplier says: Oh my God, I have this. I used to send him a little piece of paper on the back of a tissue paper with the invoice and he paid me. All of a sudden he is using this to get a credit, so maybe it is time to start filing income tax returns. On the other hand he could say: I have been giving you these pieces of tissue paper and you

M. Hoffman: Les discussions que j'ai eues avec des commissions fiscales européennes et avec le FMI, qui ont participé à la conception de systèmes fiscaux en Europe, m'ont appris que tous ces pays ont connu de sérieux problèmes de croissance. Au cours des deux premières années, tous ces pays européens, sans exception, se sont heurtés à de sérieux problèmes de fraude représentant plusieurs points de pourcentage du total recouvré. Au bout d'un an ou deux, cependant, les administrations fiscales se sont elles-mêmes habituées au nouveau système qui leur offre un moyen de contrôle. Il faut beaucoup de temps et d'efforts pour mettre en route un tel système et pour qu'il fonctionne comme vous le désirez, mais il permet alors de réduire fort sensiblement le pourcentage de recettes perdues à cause de la fraude. Cependant, les difficultés de croissance demeurent, et il faut un ou deux ans pour habituer les contribuables et ceux qui les contrôlent à travailler en bonne harmonie.

M. Layton: Monsieur le président, dans la même veine, cela ne nous donne-t-il pas la possibilité de profiter de cette expérience? Faut-il vraiment que nous traversions les mêmes problèmes de croissance et que nous passions, nous aussi, deux années à attendre une période de fraude maximum avant de pouvoir régler la question?

M. Hoffman: Vous avez tout à fait raison et la prudence dicte à un gouvernement qui veut mettre en vigueur un tel système qu'il étudie de très près le processus d'éducation du public canadien, et qu'il en fasse autant des systèmes déjà en vigueur. L'expérience étrangère existe et le gouvernement peut en profiter.

M. Layton: Selon vous, les sanctions et le genre de contrôles qui seront peut-être nécessaires au cours de la ou des deux premières années ne le seront plus par la suite?

M. Hoffman: Ce sont là des questions qu'il faut étudier longtemps avant de mettre le système en oeuvre.

M. Dorin: Je ne sais pas si c'est vrai—en fait, ce ne l'est probablement pas. Il me semble avoir entendu dire quelque part qu'à en croire l'expérience de certains pays européens ou de quelqu'un d'autre—je crois qu'il s'agit de la Grande-Bretagne—le recouvrement de la taxe de vente se fait normalement et s'est en fait amélioré grâce à la meilleure observation des règlements, car, pour diverses raisons, les chiffres ont augmenté. C'est peut-être une rumeur sans fondement, mais...

M. Friedman: C'est une vérification croisée—nous en avons déjà parlé. Si un de vos clients veut une facture et l'utilise pour obtenir un crédit, et si tout d'un coup, le fournisseur déclare: Oh, mon Dieu, voici ce que j'ai. Autrefois, j'inscrivais la facture sur un petit bout de papier et il me payait. Et voilà que tout d'un coup, il utilise ce morceau de papier pour obtenir un crédit; il serait peut-être temps de commencer à remplir des déclarations d'impôt sur le revenu. En revanche, il

[Text]

are an end-user, so we will split the difference and continue to have invoicing on tissue paper or on whatever.

As we said before, you can either comply now or in fact say not only can I get away with income tax evasion, now I try for VAT or GST evasion as well.

Mr. Waslander: I have some figures here from a study of the European experience, which was put out by CFIB. The extent of losses that is detectable by audit in investigations seems to amount to about 1% to 2% of revenues in Europe.

• 1650

In France it is estimated that another 6% to 10% of VAT revenue goes undetected. This would be largely the underground economy, I imagine. The French authorities state that, of detectable fraud, 43% is accounted for by the omission of taxable transactions; 11% by irregular deductions of input tax; 10% by false exports; 5% by early input claims and another 5% by failure to pay tax on goods and services for personal use. There is certainly evidence of a number of substantial leaks in the system.

Mr. Friedman: This is what they found.

Mr. Waslander: This is what they found. This is the breakdown of detectable fraud. On top of that they estimate that there would be another 6% to 10% of revenue they are not seeing at all. I have no idea how they think they are missing it or what the source of the revenue loss is.

Mr. Friedman: I cannot remember where I have seen this and I do not want to cast national dispersions, but the propensity to be creative in your tax planning differs among countries in Europe. It seems that Canadians as a whole tend to be more law abiding than those in most other countries. If you use this as a guide, perhaps you are not going to have any significant problems.

You may have problems at the other side. You have people who try ways of getting around the system but you also have a growing group of practitioners and businessmen who say that you parliamentarians have given them the rules and now they are going to test the boundaries; if you say something is tax free but they have something that is slightly different, do they get out of paying tax? The other side of it is that you have revenue leakage you do not know about and you have also something that Finance should be rightly concerned about with federal sales tax; somebody is always testing security of revenue.

[Translation]

pourrait également dire ceci: Et jusqu'à présent, je vous remettais mes factures sur de petits bouts de papier et comme c'est vous l'utilisateur final, nous allons partager la différence et continuer à utiliser des mouchoirs en papier ou autre chose pour nos factures.

Comme je l'ai déjà dit, vous avez maintenant le choix: ou bien vous observez les règlements, ou bien vous dites que non seulement vous pouvez pratiquer impunément l'évasion fiscale, mais essayer d'en faire autant pour la TVA ou la TBS.

M. Waslander: J'ai devant moi quelques chiffres extraits d'une étude sur l'expérience européenne, publiée par le CFIB. Les vérifications établies au cours d'enquêtes ont permis de déterminer que les pertes semblaient être de l'ordre de 1 à 2 p. 100 des recettes en Europe.

En France, on estime qu'un autre 6 à 10 p. 100 des recettes de TVA sont ainsi perdues. La grande responsable en est l'économie au noir, j'imagine. Selon les autorités françaises, sur le total des fraudes repérables, 43 p. 100 sont dues à l'omission de transactions taxables; 11 p. 100 à des déductions irrégulières de la taxe des intrants; 10 p. 100 à de fausses exportations; 5 p. 100 à des demandes précoces de remboursement pour des intrants, et 5 p. 100 au non-paiement de la taxe sur les biens et services à usage personnel. Le système offre manifestement de nombreuses échappatoires.

M. Friedman: C'est ce qui a été constaté

M. Waslander: C'est exact. C'est ainsi que se décompose la fraude décelable. En plus de cela, les autorités françaises estiment qu'il existe 6 à 10 p. 100 des recettes supplémentaires qui passent totalement inaperçues. Je ne sais pas du tout comment ils savent que ces recettes leur échappent ni quelle est la source de la perte de recettes.

M. Friedman: Je ne me souviens pas où j'ai vu cela et je ne voudrais pas calomnier d'autres pays, mais la tendance à une certaine créativité dans la planification fiscale varie entre les divers pays européens. Il me semble que, dans l'ensemble, les Canadiens ont tendance à être plus respectueux des lois que les habitants de la plupart des autres pays. Si vous prenez cela comme point de départ, peut-être n'aurez-vous pas de problèmes sérieux.

C'est à l'autre bout que vous risquez d'avoir des problèmes. Il y a des gens qui essaient de contourner le système, mais il y a également un groupe croissant de praticiens et de gens d'affaires qui disent que c'est vous, les parlementaires, qui leur avez donné les règlements et qu'ils vont maintenant en tester les limites; si vous dites que quelque chose n'est pas taxable, mais s'ils ont quelque chose qui n'est que légèrement différent, échappent-ils à la taxe? Le revers de la médaille, c'est qu'il y a des pertes de recettes dont vous n'êtes pas au courant et que quelqu'un est toujours prêt à voir jusqu'où on peut aller, et c'est là quelque chose qui devrait justement préoccuper les Finances en ce qui concerne la taxe de vente fédérale.

[Texte]

Mr. Cassidy: Could I just ask a question about that. Is there any evidence that the national sales tax, BTT or VAT, is more immune to that testing of boundaries than the kind of retail sales taxes we have had in Canada?

Mr. Friedman: It depends. If you are going to say that basic groceries include six doughnuts but one to five are taxable, then you are going to have problems, but if you have clear boundaries, then you are not. It depends on the rules you decide to set. As we said last night, if you decide to tax everything and to provide credits for everything, you are not going to have any problems.

Mr. Weyman: There is a clear boundary between unsalted peanuts and salted peanuts.

Mr. Friedman: What is a salt substitute? Is it still an unsalted peanut if I put a salt substitute on the peanut? I am just throwing that out as the kinds of things that will be, for want of something better to say, a waste of taxpayers' money because you will defend those cases. The clearer you can make those guidelines—and I sound like a broken record—the less grief you will have in that area.

Mr. Cassidy: The next stage in pizza technology is that you will be able to buy a frozen pizza; there will be a microwave and when you sit for a minute and look at it, you get a hot pizza.

Mr. Layton: They now have become a restaurant and we could charge them tax.

Mr. Friedman: This is already happening in convenience stores where you can take a pizza out of the cooler and throw it in the microwave after you have paid for it.

Mr. Cassidy: After you pay for it, yes.

Mr. Friedman: That is right. It just happens to be there.

Mr. Cassidy: But if you put it into a mortgage payment, you pay sales tax, is that right?

Mr. Friedman: Then it is a restaurant. You have just illustrated—

Mr. Wood: In Toronto, there are some delicatessens where, if you buy the sandwich made up, it could be subject to tax, but if all they give you is the roll and then give you the meat and sell you those separately, there is no tax.

Mr. Friedman: That is basic groceries.

Mr. Wood: It depends on how it is delivered to the consumer.

Mr. Cassidy: We could have a high-class restaurant on the top of the CN Tower where you make your own.

[Traduction]

M. Cassidy: Permettez-moi de poser une question à ce sujet. Est-il prouvé que la taxe de vente nationale, la TTC ou la TVA, est mieux protégée contre ce genre de tentative que les taxes de vente au détail que nous avons eues au Canada?

M. Friedman: Cela dépend. Si vous dites que six beignes font partie du panier de la ménagère, mais que un à cinq seulement sont taxables, vous allez avoir des problèmes; par contre, si les limites sont bien établies, vous n'en aurez pas. Cela dépend des règles que vous décidez de fixer. Comme nous l'avons dit hier soir, si vous décidez de tout taxer et d'offrir des crédits pour tout, vous n'aurez aucune difficulté.

M. Weyman: La distinction entre les arachides non salées et les arachides salées est tout à fait nette.

M. Friedman: Qu'est-ce qu'un succédané de sel? S'agit-il encore d'une arachide non salée si j'utilise un substitut de sel? Je vous donne simplement cela comme exemple du genre de choses que je qualifierais, à défaut d'autre chose, de gaspillage de l'argent du contribuable, car ce sera là le genre d'affaires que vous serez appelés à défendre. Plus vos lignes directrices sont claires—c'est un leitmotiv chez moi—moins vous aurez de difficultés dans ce domaine.

M. Cassidy: La prochaine étape de la technologie de la pizza vous permettra de l'acheter congelée, vous disposerez d'un four à micro-ondes et au bout d'une minute, vous aurez une pizza chaude.

M. Layton: L'établissement devient ainsi un restaurant, et nous pourrions lui imposer une taxe.

M. Friedman: C'est déjà ce qui se passe dans les magasins qui vendent des plats minute, où vous pouvez sortir une pizza du réfrigérateur et la mettre au four à micro-ondes après l'avoir payée.

M. Cassidy: En effet.

M. Friedman: C'est exact. Il se fait tout simplement qu'il est là.

M. Cassidy: Mais si vous vous servez de votre argent pour payer une hypothèque, vous payez une taxe de vente, n'est-ce pas?

M. Friedman: Il s'agit là d'un restaurant. Vous venez justement de montrer. . .

M. Wood: A Toronto, il existe des magasins de mets fins où vous pouvez acheter un sandwich tout préparé qui pourrait être soumis à une taxe de vente, mais si tout ce qu'on vous donne, c'est le petit pain et puis la viande, et qu'on vous les vend séparément, il n'y a pas de taxe.

M. Friedman: Il s'agit de produits d'épicerie de base.

M. Wood: Cela dépend de la manière dont ils sont livrés au consommateur.

M. Cassidy: Nous pourrions avoir un restaurant de grande classe au sommet de la Tour du CN où vous pourriez préparer vos propres sandwiches.

[Text]

Mr. Weyman: Mr. Chairman, the question we are always asking ourselves—and perhaps Mr. Cassidy knows the answer—is whether edible underwear is a basic grocery.

Mr. Cassidy: Does that not come under Bill C-54?

• 1655

The Chairman: Let us carry on.

Mr. Friedman: I think, Lorey, it is a direct function of rate, and it is not clear, if you have a 25% VAT in Canada, whether you would have more of an underground economy than at 10%. I personally think you would. Even I might be tempted to. . . You know, 25% or 20% is a big tax so there has to be. . . In France, for example—they have pulled it back now—the VAT on car rentals was 33% and it got to the point where people would rent cars in other countries because of the high rate of tax. So the question then becomes: is there a point at which people are more willing to take a risk?

Mr. Cassidy: What is our experience now? We have a 21% combined rate of federal and provincial sales tax on goods subject to the NST. To what extent are there various kinds of evasion and avoidance where we already have quite high levels of combined tax?

Mr. Friedman: Where do you get the 21%?

Mr. Cassidy: The 7% or 8% compounded on top of the 12% federal sales tax.

Mr. Friedman: Generally, except in unique situations, the manufacturer or wholesaler will pay the federal sales tax, will bury it, and the provincial sales tax is collected by somebody else.

Mr. Cassidy: They are too far apart to be seen as coming together.

Mr. Friedman: That is right. If you went out on Parliament Hill and grabbed the first person you found and asked how much in taxes there is on the car he just bought, he would say he just paid 7% to Ontario on his \$20,000 car. He might be very surprised that the dealer cost also attracted a 12% federal sales tax, a \$100 excise tax for an air conditioner, \$100 for an overweight tax, and a 10¢ lighter tax. It is hidden. I think Peter alluded to there being some incentive: even if you did not have to, maybe it makes more sense to bury one tax and show the other tax.

I really believe—and this is why it is important that we talked about it this morning—that to the extent taxpayers perceive that the tax is fair to everybody, that it applies to

[Translation]

M. Weyman: Monsieur le président, la question que nous nous posons constamment—et peut-être M. Cassidy connaît-il la réponse—est de savoir si les sous-vêtements comestibles constituent un produit d'épicerie de première nécessité.

M. Cassidy: Cela ne relève-t-il pas du projet de loi C-54?

Le président: Continuons.

M. Friedman: Je crois, Lorey, que c'est directement fonction du taux, et il n'est pas certain que si la TVA était fixée à 25 p. 100 au Canada, au lieu de 10 p. 100, l'économie au noir serait plus importante. Personnellement, je crois qu'elle le serait. Je serais même tenté de. . . Vous savez, 20 ou 25 p. 100, c'est une taxe importante, et il est donc inévitable que. . . En France, par exemple—ils l'ont réduite depuis—la TVA sur la location d'automobile était de 33 p. 100, et on était arrivé au point où les gens louaient des voitures dans d'autres pays à cause de cette taxe. La question devient donc la suivante: à partir de quel point les gens sont-ils plus disposés à prendre des risques?

M. Cassidy: Que se passe-t-il chez nous? Nous avons un taux combiné de taxe de vente fédérale et provinciale de 21 p. 100 sur les produits soumis à la TVN. Dans quelle mesure y a-t-il des cas d'évasion et d'évitement fiscal, puisque cette taxe combinée atteint déjà un niveau fort élevé?

M. Friedman: Où avez-vous trouvé ces 21 p. 100?

M. Cassidy: Les 7 ou 8 p. 100 ajoutés à la taxe de vente fédérale de 12 p. 100.

M. Friedman: En général, sauf cas exceptionnels, le fabricant ou grossiste paie la taxe de vente fédérale, l'incorpore au reste, et la taxe de vente provinciale est recouvrée par quelqu'un d'autre.

M. Cassidy: Il y a trop d'écart entre elles pour qu'elles puissent être regroupées.

M. Friedman: C'est exact. Allez donc sur la colline du Parlement, attrapez la première personne rencontrée et demandez-lui quel est le montant des taxes qu'il a payé sur la voiture qu'il vient d'acheter, et vous verrez qu'il vous répondra qu'il a seulement payé 7 p. 100 à l'Ontario pour son automobile de 20,000\$. Il serait sans doute fort surpris d'apprendre que le coût du concessionnaire comprend également une taxe de vente fédérale de 12 p. 100, une taxe d'accise de 100\$ pour un climatiseur, 100\$ pour une taxe de surcharge, et 10c. pour une taxe sur l'allume-cigare. Tout cela est caché. Je crois que Peter a fait allusion à l'existence d'une incitation à la fraude: même si vous n'étiez pas obligés de le faire, il serait peut-être plus logique de camoufler une taxe et de monter l'autre en épingle.

Je demeure convaincu—et c'est pourquoi il est important que nous en ayons parlé ce matin—que dans la mesure où les contribuables ont le sentiment que la taxe

[Texte]

everybody in the country, they are less likely to avoid tax than if they say, hey, so-and-so is getting a break from this. That fairness is very important, and that is just an instinctive reaction.

That is the end of administration and compliance. We are going to spend the next several hours going into segmented industries, and I wonder whether it might not be an opportune time for a five-minute or two-minute break.

The Vice-Chairman: Sure. We will take a five-minute break and ask you to come back.

The chairman has asked me to take over the Chair. He has indicated that we should be here till 6 p.m., but I have something else at 6 p.m. so we will make it an early 6 p.m., like 5.40 p.m. or something.

• 1658

• 1706

The Vice-Chairman: Let us continue the process, gentlemen, ladies. I am advised that we now turn to chapter 4, the sector questions, "Small Business".

Mr. Waslander: The committee has received a few briefs from various sectors, in particular from the large cities and the transportation sector. I have made some notes about the issues that were raised. There is a paper I wanted to hand out at this point. One of the items concerns small business. Because it is well established that compliance costs are relatively large for small businesses, I have listed a number of ways in which small businesses can be given relief in terms of reducing the accounting burden, paying a fee, simplifying the sales tax calculation, and so on. So there is a handout you may want to use.

The other items are listed at the beginning of the note. They concern municipalities and other government bodies: the transportation sector, in particular; international shipment of goods; the question of taxing financial institutions; and periodicals, which is an issue concerning taxing of imports. Therefore the first and the fourth are based on my own research of sales tax issues. Two, three, and five are based on briefs that the committee has received to date.

Mr. Friedman: Having given you the basics, you can now quickly recognize that most of the sectors are built on the fundamentals, and that while their issues are specific, they still relate to how the system itself operates.

[Traduction]

est juste pour tous, et qu'elle s'applique à tous les habitants de ce pays, ils seront moins tentés d'éviter de la payer que s'ils peuvent se dire: dites donc, un tel y coupe, lui. Cette équité est très importante, car il s'agit là d'une réaction instinctive.

Nous en sommes venus à la fin de l'administration et de l'observation. Nous allons consacrer les prochaines heures aux divers secteurs industriels, et il serait peut-être bon de nous accorder une interruption de cinq minutes, ou de deux minutes.

Le vice-président: Certainement. Nous allons interrompre la séance pendant cinq minutes et nous vous invitons à revenir ensuite.

Le président m'a demandé de le relever. Il m'a dit que nous devrions rester ici jusqu'à 18 heures, mais j'ai un autre engagement à cette heure-là, et nous nous arrêterons donc un peu plus tôt, à 17h40, par exemple.

Le vice-président: Poursuivons, mesdames et messieurs. On me dit que nous passons maintenant au chapitre 4, les questions sectorielles, «la petite entreprise».

M. Waslander: Le Comité a reçu quelques mémoires de divers secteurs, en particulier des grandes villes et du secteur des transports. J'ai pris en note certains des problèmes soulevés. J'aimerais distribuer un document. Un des points touche la petite entreprise. Étant donné qu'il est bien établi que les coûts du respect de la loi sont relativement élevés pour les petites entreprises, j'ai énuméré un certain nombre de façons dont on peut soulager les petites entreprises en réduisant le fardeau comptable, en payant des honoraires, en simplifiant le calcul de la taxe de vente, et ainsi de suite. Il y a donc un document qui vous sera peut-être utile.

Les autres points sont énumérés au début de la note. Ils portent sur les municipalités et les autres organismes gouvernementaux, en particulier le secteur des transports, l'expédition internationale de marchandises, la question des impôts sur les institutions financières et les périodiques, problème touchant la taxe sur les importations. Le premier et le quatrième point se fondent donc sur ma propre recherche sur les problèmes de la taxe de vente. Les points deux, trois et cinq se fondent sur des mémoires que le Comité a reçus à ce jour.

M. Friedman: Puisque vous avez maintenant l'essentiel, vous pouvez facilement vous rendre compte que la plupart des secteurs sont construits sur les points fondamentaux, et que, bien que les problèmes soient particuliers, ils portent néanmoins sur le fonctionnement du système lui-même.

[Text]

Mr. Wood: We are now on 4-1, "Small Business". This is really just a summary of the points you want to keep in mind in considering the treatment of small business.

The paper proposes a filing advantage for small business. The proposal is that if one has less than \$6 million in annual sales, then one would file quarterly rather than monthly; and if you were very small, less than \$50,000 in sales or less than \$1,000 in net tax, then you would qualify for an annual return. So there is some filing advantage proposed.

The other thing to keep in mind is that the complexity for small business is a direct function of the number of exemptions and rates built into the system.

• 1710

We saw earlier, for instance, if a small business sells some exempt goods, some taxable goods and some tax-free goods, that would result in some proration being required, and an additional paper burden on the small business. Multiple rates similarly require an additional administrative burden on the small business. To the extent that the federal base varies from the provincial base is an additional burden on the small business. If one level taxes salted peanuts and the other one does not, then obviously the clerk at the cash register will have to be well educated, in order to calculate the proper amount of tax.

I think we should also bear in mind that, under a multi-stage sales tax, it is both the sales side and the purchases side where the complexity can occur, because not only does he have to calculate tax on his sales, he also has to calculate the credit he is entitled to. If everything is taxable, it will be nice and simple. But if there are some exemptions and different rates involved, he will have different pools of tax, which he will have to segregate and add up, to determine the credit he wants.

The Vice-Chairman: Peter, is that not right on the invoice he will have received from his supplier?

Mr. Wood: It depends on whether it is a goods and services tax, where there may not be invoices or no invoice requirement. Under a credit invoice, a traditional VAT, there is always an invoice and it is shown on the invoice.

The Vice-Chairman: There has to be compliance between those two figures.

Mr. Wood: It is right there. But under a goods and services tax, there would be no explicit invoice requirement. In some cases, it might be just a cheque, a written contract or something other than the invoice, and then you will have to sort out the implicit tax in that number.

[Translation]

M. Wood: Nous en sommes rendus à 4-1, «la petite entreprise». Il s'agit en fait d'un résumé des points dont il faut tenir compte pour étudier le traitement de la petite entreprise.

Le document propose d'accorder aux petites entreprises un avantage en ce qui touche les déclarations. Il est proposé que si le chiffre d'affaires annuel est inférieur à 6 millions de dollars, les déclarations soient trimestrielles plutôt que mensuelles; dans le cas des très petites entreprises, un chiffre d'affaires de moins de 50,000\$, ou moins de 1,000\$ de taxe nette, alors l'entreprise pourrait présenter une déclaration annuelle. On propose donc un certain avantage au chapitre des déclarations.

L'autre chose qu'il ne faut pas oublier, c'est que la complexité pour la petite entreprise est directement fonction du nombre d'exemptions et de taux que comporte le système.

Nous avons vu tout à l'heure, par exemple, que si une petite entreprise vend des marchandises exemptées, des marchandises taxables et des marchandises non taxables, il faudrait établir un certain prorata, ce qui entraînerait des écritures supplémentaires pour la petite entreprise. De même, les taux multiples imposent un fardeau administratif supplémentaire aux petites entreprises. Les variations entre l'assiette fédérale et l'assiette provinciale constituent également un fardeau pour les petites entreprises. Si un palier de gouvernement taxe les cacahuètes salées, mais que l'autre ne le fait pas, alors le commis à la caisse devra être bien formé pour calculer la taxe correcte.

Je crois que nous devrions également nous rappeler qu'en vertu de la taxe de vente multi-stades, il peut y avoir des complexités autant du côté des ventes que du côté des achats, car il faut non seulement calculer la taxe sur les ventes, mais aussi le crédit auquel on a droit. Si tout est taxable, il n'y aura pas de problème. Mais s'il y a des exemptions et des taux différents, il y aura des réserves différentes de taxes qu'il faudra distinguer et additionner pour déterminer le crédit désiré.

Le vice-président: Peter, est-ce que cela ne figure pas sur la facture reçu du fournisseur?

M. Wood: S'il s'agit d'une taxe sur les biens et services, il se peut qu'il n'y ait pas de facture ou qu'aucune facture ne soit nécessaire. S'il s'agit d'une facture de crédit, d'une TVA traditionnelle, il y a toujours une facture, et cela figure sur la facture.

Le vice-président: Les deux chiffres doivent concorder.

M. Wood: C'est là. Mais en vertu d'une taxe sur les biens et services, il n'y aurait aucune exigence explicite touchant les factures. Dans certains cas, il pourrait s'agir tout simplement d'un chèque, d'un contrat écrit ou de quelque chose d'autre que la facture, et alors, il faudrait distinguer la taxe implicite dans ce chiffre.

[Texte]

I think it is easier to accommodate exemptions and different rates in a credit invoice system because it is explicitly stated that the small business at least can track it, even though there is an additional compliance burden on him.

Mr. Friedman: By the way, in most countries, if the invoice is under \$100, 50 pounds or whatever the amount, it is enough for the supplier just to say tax included or this invoice includes tax. But that again says to the small businessman who makes the purchase, I have two kinds of invoices, I can have the tax explicit or buried in smaller invoices. That is an extra computation the small businessman will perhaps have to make.

Mr. Wood: This is on a point Andy had made earlier, that it is possible the small business's cashflow might be improved. Think of a business where they are in cash sales, and they are collecting the tax, they get the tax, they keep it until they turn it into the government, which may be as much as a year later, and most often quarterly. So there can be a cashflow advantage to the small business.

There could also be some simplification of obtaining tax relief. For instance, under the current federal sales tax regime, there is a small business threshold of \$50,000. If the person manufactures goods and does not have sales in excess of \$50,000, he does not have to pay anything on the sales side. He is, however, still entitled to relief on the input side for production equipment, but he has to know enough to file a refund claim, because only if he files a refund claim does he get the tax back. Small businesses are often not equipped with the professional advisers to tell them they have to go through this process, and often miss many of the federal and provincial exemptions available to them, because they do not understand the rules.

The Vice-Chairman: The \$50,000 is rigid. If he makes two sales in the year, one for \$1,000 and the other for \$49,000, there is no tax to collect and to remit on the \$49,000, but he can collect on the rebate or on the credit for the taxes on goods he bought.

Mr. Wood: It is limited to production equipment.

Mr. Friedman: There is no association. If he chooses to set up eight companies, he can sell up to \$50,000 in each of those eight companies, and still not pay federal sales tax, but at 12% the advantage is only \$6,000 per company. There is currently no associated rules for—

The Vice-Chairman: The trade-off there is that the government has no compliance, collecting or any other problems; otherwise it seems kind of generous towards the small operator. Was it intended to be so generous?

[Traduction]

Je crois qu'il est plus facile de tenir compte des exemptions et des taux différents dans un système de facture de crédit, car il est explicitement énoncé que la petite entreprise peut au moins la retracer, même si cela impose un fardeau supplémentaire.

M. Friedman: En passant, dans la plupart des pays, si la facture est inférieure à 100\$, 50 livres, ou quelque autre montant, il suffit que le fournisseur déclare que la taxe est incluse ou que la facture inclut la taxe. Mais cela veut toujours dire pour le petit entrepreneur qui fait l'achat qu'il y a deux sortes de factures, que la taxe peut être explicite ou cachée dans de petites factures. C'est là un calcul supplémentaire que le petit entrepreneur devra peut-être faire.

M. Wood: J'aimerais revenir à ce que Andy disait tout à l'heure, à savoir qu'il est possible que les mouvements de trésorerie de la petite entreprise soient augmentés. Pensons à une entreprise qui fait des ventes au comptant et qui perçoit la taxe; elle reçoit la taxe et la conserve jusqu'à ce qu'il soit temps de la remettre au gouvernement, ce qui pourrait être même une année plus tard, et le plus souvent un trimestre plus tard. Il peut donc y avoir un avantage au titre des mouvements de trésorerie pour la petite entreprise.

Il pourrait également être un peu plus simple d'obtenir l'allègement. Par exemple, dans le cadre du régime actuel de taxe de vente fédérale, le seuil de la petite entreprise est de 50,000\$. Si quelqu'un fabrique des biens et si ses ventes ne dépassent pas 50,000\$, il n'a rien à payer du côté des ventes. Il a toutefois droit à l'allègement du côté des intrants pour l'équipement de production, mais il doit être au courant qu'il faut présenter une demande de remboursement, sans quoi la taxe ne lui sera pas remise. Souvent, les petites entreprises n'ont pas les conseillers professionnels qui peuvent leur dire de procéder ainsi et ne tirent pas parti de bon nombre des exemptions fédérales et provinciales auxquelles elles ont droit, parce qu'elles ne comprennent pas les règles.

Le vice-président: Ce chiffre de 50,000\$ est fixe. Si quelqu'un fait deux ventes dans l'année, l'une de 1,000\$ et l'autre de 49,000\$, il n'y a aucune taxe à percevoir et à remettre sur les 49,000\$, mais il peut percevoir le rabais ou le crédit pour les taxes sur les biens qu'il a achetés.

M. Wood: Cela ne touche que le matériel de production.

M. Friedman: Il n'y a pas d'association. Si quelqu'un choisit de constituer huit sociétés, il peut vendre jusqu'à 50,000\$ dans chacune de ces huit sociétés sans payer de taxe de vente fédérale, mais à 12 p. 100, l'avantage n'est que de 6,000\$ par société. Il n'y a actuellement aucune règle touchant l'association. . .

Le vice-président: En contrepartie, le gouvernement n'a pas à s'occuper du respect de la loi, de la perception, ou de quelque autre problème; autrement, cela semble assez généreux envers le petit entrepreneur. Est-ce que c'est intentionnel?

[Text]

Mr. Friedman: It was intended to avoid the amount of paperwork where, for \$6,000 a year, each of these organizations is going to file returns. You are going to have more police people, etc.

• 1715

They have changed it. In the past you could get an outright exemption; now you have to pay the federal sales tax on purchase of production equipment and apply for a refund. I suspect a lot of companies qualifying for \$50,000 started making sales of \$100,000, \$200,000, and \$300,000 and never began to pay the federal sales tax, but they were still getting credit for purchases. This way the government has some way of controlling if they still make the \$50,000 test.

Mr. Wood: To the extent that there is a broad base and the small business gets a refund on everything they purchase, they are very likely to obtain a full tax relief. In the current system or in the provincial sales tax systems, they are likely to miss some.

The other point to keep in mind is that small businesses sell to different levels of trade. If they sell only to consumers it is not so much of a problem as when they sell to other businesses who would want a tax credit for the purchase. If a small business were exempt, the next fellow up the chain who bought from the small business would not be able to get a credit and the small business might be placed at a disadvantage vis-à-vis the larger business in the system. There is general pressure from customers on small businesses to participate in the system.

One of the approaches used in Europe, as Andy alluded to earlier, was that you are not in the system unless you exceed some threshold. In the U.K. the equivalent of \$50,000 was mentioned. Andy also talked about the proposal of \$5,000 in Canada. The paper indicates that the threshold depends on the form the multi-staged sales tax takes. A goods and services tax, because there is no explicit invoicing requirement, requires a smaller threshold so there will not be leakage in the system for the next guy buying from the small business. If he bought from a very small business, he should not be entitled to a credit for the purchase. For example, if the threshold were \$100,000, there would likely be more leakage in the system than if the threshold were \$5,000.

There are a number of problems surrounding any threshold. I have seen a couple of articles on the one in the U.K. A hairdresser has shown she has \$50,000 in sales and does not want to expand or add anyone else to the business. If she goes over that amount, she is taxed on everything. It could be viewed as a barrier to growth. On the other hand, a business down the road at \$55,000 in

[Translation]

M. Friedman: L'intention était d'éviter la paperasse, les déclarations que chacune de ces organisations devrait faire pour 6,000\$. Il faudrait davantage de policiers, etc.

Il y a eu une modification. Autrefois, on pouvait obtenir une exonération pure et simple; maintenant, il faut payer la taxe de vente fédérale sur l'achat de matériel de production et demander un remboursement. J'imagine que bon nombre d'entreprises qui étaient sous le plafond de 50,000\$ ont commencé à faire des ventes de 100,000\$, 200,000\$ et 300,000\$ et n'ont jamais commencé à payer la taxe de vente fédérale, tout en recevant le crédit pour les achats. De cette façon, le gouvernement dispose d'une façon de vérifier si les entreprises se conforment toujours au critère des 50,000\$.

M. Wood: Dans la mesure où il y a une assiette large et où la petite entreprise obtient un remboursement sur tout ce qu'elle achète, elle risque fort d'obtenir un plein allègement fiscal. Dans le système actuel, ou dans les systèmes provinciaux de taxe de vente, elle risque d'en rater quelques-uns.

L'autre point qu'il ne faudrait pas oublier, c'est que les petites entreprises vendent à des paliers de commerce différents. Si elles vendent uniquement aux consommateurs, le problème est moins grand que lorsqu'elles vendent à d'autres entreprises qui voudront un crédit de taxe pour l'achat. Si une petite entreprise est exonérée, le prochain maillon de la chaîne qui achète de cette petite entreprise ne pourra pas obtenir un crédit, et la petite entreprise sera peut-être désavantagée par rapport aux grandes entreprises dans le système. Les clients exercent une pression générale sur les petites entreprises pour qu'elles participent au système.

Une méthode utilisée en Europe, dont Andy a parlé tout à l'heure, c'est qu'on n'entre pas dans le système en bas d'un certain seuil. Au Royaume-Uni, on a mentionné l'équivalent de 50,000\$. Andy a également parlé de la proposition de 5,000\$ faite au Canada. Selon le document, le seuil dépend de la forme que prend la taxe de vente multi-stades. Une taxe sur les biens et services, lorsqu'il n'y a pas d'exigence explicite touchant les factures, exige un seuil plus bas pour qu'il n'y ait pas de fuite dans le système pour celui qui achète de la petite entreprise. S'il achète d'une très petite entreprise, il ne devrait pas avoir droit à un crédit pour cet achat. Par exemple, si le seuil est de 100,000\$, il y aura vraisemblablement plus de fuites dans le système que si le seuil est fixé à 5,000\$.

N'importe quel seuil comporte un certain nombre de problèmes. J'ai vu quelques articles sur celui du Royaume-Uni. Une coiffeuse a déclaré qu'elle a 50,000\$ de ventes et qu'elle ne veut pas d'expansion ni ajouter qui que ce soit à l'entreprise. Si elle dépasse cette somme, elle est taxée sur tout. Cela pourrait être considéré comme un obstacle à la croissance. D'autre part, l'entreprise dont les ventes sif

[Texte]

sales instead of \$49,999 will feel they are treated unfairly vis-à-vis the business with the threshold exemption.

Larger thresholds give rise to the possibility of avoidance. If you have a \$100,000 threshold and multiple companies, try to keep them disassociated and take multiple advantage of the threshold. Certain avoidance rules are necessary when everyone has a threshold of any size.

We have been told several times from the U.K., on the identification problem, that people wanted to participate although they were below \$50,000 in sales so their customers would believe they had \$50,000 in sales. Examples given to us by the U.K. people were barristers and solicitors who did not want to admit they had less than \$50,000 in sales. They would register in the system and issue tax invoices so the customer would believe they were doing well.

Mr. Dorin: Where are all the lawyers when you need them? They are not here today to hear this.

Mr. Wood: As we mentioned earlier, for provincial sales tax there is no small business concession except a filing period. Once you are carrying on business, you are in the system and it does not matter if it is \$1,000 in sales or \$50,000 in sales. You are in the system and required to collect.

• 1720

The other concession given by the provinces, and also proposed in the government document, is that businesses get a collection fee by the provinces, although there are some exceptions, depending on size. There is a suggestion in the government paper on page 37 that small businesses, recognizing their limited administrative resources, should receive a collection fee from the government. This could be done in a manner similar to the compensation provided by provinces under the retail sales tax system. So there is some suggestion that there would be some sort of a collection fee.

In the New Zealand concession to small business, they have a cash basis option. If you are very small, you just worry about your cash. You get taxed on the cash you receive, and you get a deduction for the cash that you pay out. It is therefore a matter of adding up your bank receipts and looking at the cheques you have written. That could simplify things for a small business. The proposals here, as you know, are on a full accrual basis, not on a cash basis. So as the proposals stand, the cash basis option would not be available to the small business, even though it has been made available in other countries.

In your research director's handout, there is a discussion of some of the other options and the ones we have just discussed. He talks about the threshold for registration. There is the fee question; the government is

[Traduction]

chiffrent à 55,000\$ plutôt qu'à 49,999\$ se sentira victime d'une injustice par rapport à celle qui reste en deçà du seuil d'exonération.

Un seuil plus élevé donne lieu à la possibilité d'évitement. Dans le cas d'un seuil de 100,000\$, si l'on a plusieurs entreprises, on tente de les conserver à part et de tirer parti du seuil plusieurs fois. Certaines règles touchant l'évitement sont nécessaires s'il y a un seuil quelconque.

On nous a dit plusieurs fois au Royaume-Uni, à propos du problème de l'identification, que des gens veulent participer même si leur chiffre d'affaires n'atteint pas 50,000\$, pour que leurs clients croient que leurs ventes atteignent ce chiffre. On nous a donné des exemples d'avocats britanniques qui ne voulaient pas admettre que leur chiffre d'affaires était inférieur à 50,000\$. Ils s'enregistraient dans le système et émettaient des factures de taxe de sorte que le client croie que leurs affaires étaient bonnes.

M. Dorin: Où sont les avocats quand on en a besoin? Ils ne sont pas ici aujourd'hui pour entendre cela.

M. Wood: Comme nous l'avons dit tout à l'heure, pour la taxe de vente provinciale, il n'y a aucune concession à la petite entreprise, si ce n'est le moment des déclarations. Une fois en affaires, vous êtes dans le système, et peu importe que vos ventes soient de 1,000\$ ou de 50,000\$. Vous êtes dans le système et vous devez percevoir la taxe.

L'autre concession accordée par les provinces, et également proposée dans le document gouvernemental, c'est que les entreprises reçoivent des droits de perception de la province, bien qu'il y ait certaines exceptions fondées sur la taille de l'entreprise. À la page 37, le document gouvernemental suggère que les petites entreprises, compte tenu de leurs ressources administratives restreintes, reçoivent un droit de perception du gouvernement. Ceci pourrait se faire de la même façon que l'indemnisation accordée par le système de taxe de vente au détail des provinces. On a donc suggéré un certain droit de perception.

En Nouvelle-Zélande, la concession à la petite entreprise est l'option de la méthode de caisse. Une très petite entreprise n'a qu'à s'occuper de sa caisse. Elle est taxée sur l'argent reçu et reçoit une déduction pour l'argent versé. Il s'agit donc tout simplement d'additionner les reçus bancaires et d'examiner les chèques faits. Cela simplifierait les choses pour une petite entreprise. Ici, comme vous le savez, on propose d'utiliser la pleine méthode d'exercice, et non la méthode de caisse. Dans l'état actuel du projet, l'option de la méthode de caisse ne serait pas offerte à la petite entreprise, même si elle l'est dans d'autres pays.

Le document de votre directeur de la recherche traite de certaines autres options et de celles dont nous venons de parler. Il parle du seuil d'enregistrement. Il y a la question du droit; le gouvernement le propose. Il parle

[Text]

proposing it. He also talks about cash accounting. Again, that could benefit small business, in my view. On average input tax calculations, he does not have to specifically identify on invoices; he just takes the purchases and applies some factor. That is a possibility. Quarterly or annual statements is what the government has proposed. You could quarrel with the threshold; perhaps it should be \$100,000: if you had less than \$100,000 in sales, you could file annually.

Exemption plus a notional input tax credit for customers is used for farmers in Europe. You are exempt and the customer gets a notional credit, even though the customer is buying from an exempt person. Finally there is the question of taxing the supplier to the small business instead of the small business and trying to shift the administrative burden back to the wholesaler.

Mr. Friedman: I think that last one is done in Ontario, where, instead of getting the tax out of the mobile catering trucks, they move it back one stage and get the wholesaler to the mobile catering trucks to withhold the tax that the catering truck would have to get from its customers.

The Vice-Chairman: Again, not on a per-sale basis but on some sort of average.

Mr. Wood: It is actually per sale in most of the arrangements with the provinces. There is a similar one in the U.K., so they know the best retail sale price. It is common in the party selling, you know, having a party at the house where you can come and buy items. The people supplying those goods to the household for resale knows what the retail price is, and have an agreement with the provinces that they will pay on that theoretical retail price, regardless of what they actually sell for.

The Vice-Chairman: Does that complete page 4-1?

Mr. Wood: Yes, I think we are complete on 4-1. We are just discussing whether you might want us to get into real estate or defer that to the evening. It is a fairly significant and complicated item.

The Vice-Chairman: Number of pages?

Mr. Wood: There are just a couple of pages but there are a lot of issues.

Mr. Warner: We could probably adjourn to the evening session.

The Vice-Chairman: What is the committee's view? Shall we adjourn until 8 p.m., and work harder at 8 p.m.? That seems to be a rather unanimous view. So with the compliance and the avoidance and all the other factors that are involved here, we will see you at 8 p.m.

This meeting stands adjourned until 8 p.m.

[Translation]

également de comptabilité de caisse. Selon moi, cela aussi pourrait être avantageux pour la petite entreprise. Dans le calcul de la taxe sur la moyenne des intrants, le petit entrepreneur n'est pas obligé de l'indiquer expressément sur les factures; il prend les achats et applique un certain facteur. C'est là une possibilité. Le gouvernement a proposé des déclarations trimestrielles ou annuelles. On pourrait discuter du seuil; peut-être devrait-il être de 100,000\$; à moins de 100,000\$ de ventes, il pourrait y avoir production annuelle.

En Europe, on utilise pour les agriculteurs l'exonération, plus un crédit théorique de taxe d'intrants pour les clients. L'agriculteur est exonéré et le client obtient un crédit théorique, même s'il achète d'une personne exonérée. Enfin, il y a la question de taxer le fournisseur de la petite entreprise au lieu de la petite entreprise et de tenter de ramener le fardeau administratif au grossiste.

M. Friedman: Je crois que cela se fait en Ontario, où, au lieu d'obtenir la taxe des cantines mobiles, elle recule d'une étape, et c'est le grossiste qui retient la taxe que la cantine mobile devrait percevoir de ses clients.

Le vice-président: Ici encore, cela n'est pas calculé par vente, mais d'après une sorte de moyenne.

M. Wood: C'est en fait par vente dans la plupart des dispositions avec les provinces. Il y a une disposition semblable au Royaume-Uni, et on connaît le meilleur prix de vente au détail. C'est ce qui se passe souvent dans les ventes dans les soirées à domicile, vous savez, ces soirées où l'on se rend chez quelqu'un pour acheter des choses. Les gens qui fournissent les marchandises aux ménages à des fins de revente connaissent le prix de détail et se sont entendus avec les provinces pour payer la taxe sur ce prix de détail théorique, quel que soit le prix de vente réel.

Le vice-président: Est-ce que cela termine la page 4-1?

M. Wood: Oui, je crois que nous en avons terminé avec la page 4-1. Nous nous demandons tout simplement si vous voulez aborder l'immobilier ou le reporter à ce soir. C'est un élément assez important et assez compliqué.

Le vice-président: Combien de pages?

M. Wood: Il y a seulement quelques pages, mais beaucoup de problèmes.

M. Warner: Nous pourrions probablement ajourner jusqu'à la séance de ce soir.

Le vice-président: Quelle est l'opinion du Comité? Allons-nous ajourner jusqu'à 20 heures, et travailler plus fort à ce moment-là? Cela semble un avis assez unanime. Étant donné les questions de respect de la loi et d'évitement et tous les autres facteurs en cause ici, nous nous reverrons à 20 heures.

La séance est levée jusqu'à 20 heures.



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HOUSE OF COMMONS

Issue No. 135

Tuesday, January 26, 1988

Chairman: Don Blenkarn

*Minutes of Proceedings and Evidence of the
Standing Committee on*

Finance and Economic Affairs

RESPECTING:

Pursuant to Standing Order 96(2), consideration of
the White Paper and other related documents on
Tax Reform—Stage II (Sales Tax)

Second Session of the Thirty-third Parliament,
1986-87-88

CHAMBRE DES COMMUNES

Fascicule n° 135

Le mardi 26 janvier 1988

Président: Don Blenkarn

*Procès-verbaux et témoignages du Comité
permanent des*

Finances et des affaires économiques

CONCERNANT:

En vertu de l'article 96(2) du Règlement, étude du
Livre blanc et autres documents connexes, ayant
trait à la réforme fiscale—deuxième étape (Taxe de
vente)

Deuxième session de la trente-troisième législature,
1986-1987-1988

STANDING COMMITTEE ON FINANCE AND
ECONOMIC AFFAIRS

Chairman: Don Blenkarn

Vice-Chairman: Robert E.J. Layton

Members

Bill Attewell
Michael Cassidy
Mary Collins
Simon de Jong
Murray Dorin
Raymond Garneau
Paul McCrossan
George Minaker
Aideen Nicholson
Marcel R. Tremblay
Norman Warner

(Quorum 7)

Marie Carrière
Clerk of the Committee

COMITÉ PERMANENT DES FINANCES ET DES
AFFAIRES ÉCONOMIQUES

Président: Don Blenkarn

Vice-président: Robert E.J. Layton

Membres

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Norman Warner

(Quorum 7)

Le greffier du Comité
Marie Carrière

MINUTES OF PROCEEDINGS

TUESDAY, JANUARY 26, 1988
(205)

[Text]

The Standing Committee on Finance and Economic Affairs met at 8:13 o'clock p.m. this day, in Room 112-N, Centre Block, the Vice-Chairman, Robert Layton, presiding.

Members of the Committee present: Don Blenkarn, Robert Layton, George Minaker, Aideen Nicholson, and Norman Warner.

In attendance: From the Committee's Research Staff: H. Bert Waslander, Research Director. David Weyman, C.A., Peat Marwick; Andy J. Friedman, C.A., Peat Marwick; Lorey A. Hoffman, Ph.D., Peat Marwick; Peter H. Wood, C.A., Clarkson Gordon, Consultants.

In accordance with its mandate under Standing Order 96(2), the Committee resumed consideration of the White Paper and other related documents on Tax Reform—Stage II (Sales Tax) tabled in the House of Commons on Thursday, June 18, 1987. (*See Minutes of Proceedings and Evidence, Monday, January 25, 1988, Issue No. 133.*)

The Research Staff made a presentation and answered questions.

At 9:57 o'clock p.m., the Committee adjourned to the call of the Chair.

Marie Carrière
Clerk of the Committee

PROCÈS-VERBAL

LE MARDI 26 JANVIER 1988
(205)

[Traduction]

Le Comité permanent des finances et des affaires économiques se réunit aujourd'hui à 20 h 13, dans la pièce 112-N de l'Édifice du centre, sous la présidence de Robert Layton, (*vice-président*).

Membres du Comité présents: Don Blenkarn, Robert Layton, George Minaker, Aideen Nicholson, Norman Warner.

Aussi présents: Du personnel de recherche du Comité: H. Bert Waslander, directeur de la recherche. David Weyman, c.a., *Peat Marwick*; Andy J. Friedman, c.a., *Peat Marwick*; Lorey A. Hoffman, ph.d., *Peat Marwick*; Peter H. Wood, c.a., *Clarkson Gordon*, conseillers.

Conformément au mandat que lui confie le paragraphe 96(2) du Règlement, le Comité examine de nouveau le Livre blanc de la Défense et autres documents connexes ayant trait à la réforme fiscale—Deuxième étape (Taxe de vente), documents déposés sur le bureau de la Chambre des communes le jeudi 18 juin 1987. (*Voir Procès-verbaux et témoignages du lundi 25 janvier 1988, fascicule n° 133.*)

Le personnel de recherche donne un exposé et répond aux questions.

À 21 h 57, le Comité s'ajourne jusqu'à nouvelle convocation du président.

Le greffier du Comité
Marie Carrière

EVIDENCE

[Recorded by Electronic Apparatus]

[Texte]

Tuesday, January 26, 1988

• 2012

The Vice-Chairman: Order, please. Pursuant to Standing Order 96(2) and in consideration of the white paper and other related documents on tax reform, stage two, sales tax, we have as our witnesses today and again tomorrow Andy Friedman, Lorey Hoffman, and Peter Wood.

We have an agenda we have been pursuing, and it brings us to the real estate section at this stage. With everyone's permission we will commence the meeting and our colleagues will be joining us very shortly.

I will turn the meeting over to you, Andy. I think Mr. Wood was actually carrying the ball as we closed the last meeting.

Mr. A.J. Friedman (Committee Consultant): Peter will continue with the segmented areas.

The Vice-Chairman: All right. I will ask the committee members and our advisers to join you in concentrating on real estate.

Mr. Peter H. Wood (Committee Consultant): If you wish we will spend the next couple of minutes on pages 4-2 and 4-3. Page 4-2 sets out the essence of the proposals and let me say it this way: sales and rentals of real estate will be taxable. So you start with that premise: sales and rentals are taxable. Then there are some exceptions. We will look at the exceptions and what the opposite side or the flip side of that means.

We start off with the premise that they are taxable; however, long-term residential rents are exempt. So one's housing, rental housing and so on, there would be no tax on residential rents. They are exempt.

The Vice-Chairman: When is it long-term? What qualifies it for long-term?

Mr. Wood: There is a rule for that. In essence, rentals of 30 days or more in a residential building are exempt. So residential rents are long-term if they are for more than 30 days. The flip side of that, of course, is staying at a local hotel. That would be short-term and would be subject to tax.

The Vice-Chairman: That is as proposed in the white paper.

Mr. Wood: Yes.

Mr. Friedman: Remember "exempt". We do not mean tax-free now; we mean exempt.

TÉMOIGNAGES

[Enregistrement électronique]

[Traduction]

Le mardi 26 janvier 1988

Le vice-président: La séance est ouverte. Le Comité se réunit aujourd'hui en vertu de l'article 96(2) du Règlement pour examiner le livre blanc et tout autre document pertinent concernant la réforme fiscale, plus particulièrement l'étape 2 sur la taxe de vente. Nous aurons comme témoins aujourd'hui et demain Andy Friedman, Lorey Hoffman et Peter Wood.

Nous suivrons l'ordre du jour. Nous en sommes au secteur de l'immobilier. Si vous êtes tous d'accord, nous allons commencer et nos collègues se joindront à nous très bientôt.

Andy, je vous donne la parole. Je crois que M. Wood nous expliquait quelque chose au moment où la dernière séance s'est terminée.

M. A.J. Friedman (consultant auprès du Comité): Peter va continuer de nous parler des secteurs divisés.

Le vice-président: Très bien. Je vais demander aux membres du Comité et à nos conseillers de se joindre à vous afin que nous nous concentrons sur l'immobilier.

M. Peter H. Wood (consultant auprès du Comité): Si vous désirez, nous prendrons quelques minutes pour examiner les pages 4-2 et 4-3. On trouve essentiellement à la page 4-2 les propositions et je vous signale surtout que les ventes et les locations seront imposables. Voilà donc quelle est la prémisse: les ventes et les locations sont imposables. Il y a ensuite les exceptions. Nous allons les étudier et nous verrons ce que représente ce côté de la médaille.

Commençons par cette prémisse que les ventes et les locations sont imposables. Cependant, les loyers résidentiels à long terme sont exemptés. Par conséquent, le logement d'un personne, son logement locatif par exemple ne sera pas imposé. Les loyers résidentiels sont exemptés.

Le vice-président: Quand s'agit-il d'un loyer à long terme? Quand peut-on le qualifier d'un long terme?

M. Wood: Il y a le règlement. Essentiellement, les loyers de 30 jours et davantage dans un immeuble résidentiel sont exemptés. Par conséquent, les loyers résidentiels à long terme sont ceux de plus de 30 jours. Par ailleurs, il y a aussi d'autres aspects de la question, demeurer dans un hôtel local. Il s'agirait de court terme et ce serait imposable.

Le vice-président: C'est ce que propose le Livre blanc.

M. Wood: Oui.

M. Friedman: Souvenez-vous que «exempté» ne signifie pas exonéré d'impôt. Il s'agit simplement d'exception.

[Texte]

The Vice-Chairman: Yes.

Mr. Wood: In other words, when that rental unit was created tax would have been paid, and that is the end of the story. But there is tax buried in the cost of rents. It is just that last value added that is not taxed. Secondly, sales of used residential dwellings are exempt. So new residential dwellings are taxable, but used are exempt. When something is built the first sale is taxable, but subsequent sales are exempt.

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The next bullet refers to so-called personal use properties, of which there is a fairly vague definition. But the idea here seems to be that if it is a personal use property, which is something used primarily for the personal use and enjoyment of the taxpayer or one or more related individuals, then that would be exempt on sale. So an example used of a country property or a hobby farm—not carried on as a business but a true hobby farm—that is for the taxpayer's personal use and enjoyment on sale would not attract a tax.

The Vice-Chairman: Again, I presume, there is going to be that definition question of when is a property for personal use and when is it for residence.

Mr. Wood: Yes, you are quite right.

Mr. David Weyman (Committee Consultant): So you are saying that the sale of a new personal-use property would be exempt.

Mr. Wood: Yes.

Mr. Weyman: New and used, in this case.

The Vice-Chairman: To differentiate.

Mr. Wood: The next bullet, that rentals are sales... most sales and rentals by the non-profit sector will be exempt. So for government, for instance, renting a building to a commercial tenant or the church renting its parking lot on weekdays, there would be an exemption. Something like this will be discussed in the non-profit sector shortly.

Just a few points to note on the taxation of realty: we're really talking about everything loaned—the land, the buildings and fixtures are included in the whole value of the property; there is no split or allegation between land, building and fixtures. The whole value of the property at changes hands would be taxable when it is subject to tax.

[Traduction]

Le vice-président: Oui.

M. Wood: Autrement dit, lorsque l'unité de location a été formée, la taxe aurait été payée, voilà le fin mot de l'histoire. Cependant, il y a dans le coût des locations une taxe cachée. C'est simplement cette dernière valeur ajoutée qui n'est pas taxée. En second lieu, les ventes de logements résidentiels non neufs sont exemptées. Donc, les logements résidentiels neufs sont soumis à la taxe, mais les logements non neufs sont exonérés de la taxe. Lorsqu'un logement est construit, la première vente est soumise à la taxe, mais les ventes suivantes ne le sont pas.

La rubrique suivante se rapporte à ce que l'on a appelé les propriétés à usage personnel, dont la définition est assez vague. Il semble ici que l'on soit parti du principe que, si la propriété est à usage personnel, c'est-à-dire si le contribuable l'utilise avant tout à son propre usage et à celui d'une ou plusieurs personnes qui lui sont apparentées, cette propriété est alors exonérée du paiement de la taxe lors de sa vente. Si l'on prend ainsi le cas d'une maison de campagne ou d'une ferme à usage récréatif, soit une ferme qui n'est pas exploitée comme une entreprise mais qui a véritablement une fin récréative, la vente d'une telle propriété destinée à l'usage personnel du contribuable ne sera pas soumise à la taxe.

Le vice-président: J'imagine, là encore, qu'il y aura un problème de définition lorsqu'il s'agira de savoir si une propriété est à usage personnel ou si elle sert de résidence.

M. Wood: En effet, vous avez tout à fait raison.

M. David Weyman (consultant auprès du Comité): Vous nous dites donc que la vente d'une propriété neuve à usage personnel sera exonérée.

M. Wood: En effet.

M. Weyman: Qu'elle soit neuve ou qu'elle ne le soit pas, cela ne fait aucune différence dans ce cas.

Le vice-président: C'est juste pour faire la distinction.

M. Wood: Prenons la rubrique suivante, celle des locations et des ventes... La plupart des ventes et des locations effectuées par le secteur à but non lucratif seront exonérées de la taxe. Donc, si le gouvernement loue par exemple un bâtiment à un locataire du secteur commercial ou si une église loue son parc de stationnement pendant les jours ouvrables de la semaine, il y aura une exonération. Tout ceci fera bientôt l'objet de discussions dans le secteur à but non lucratif.

Je voudrais apporter quelques précisions maintenant sur la taxation des biens immobiliers: nous nous référons en fait à la totalité des biens loués, et les terrains, les bâtiments ainsi que l'équipement entrent tous dans la valeur globale de la propriété; nous ne faisons pas de distinction ou de discrimination entre les terrains, les bâtiments et l'équipement. C'est la valeur globale de la propriété ayant changé de main qui sera soumise à la taxe.

[Text]

There is a certificate requirement. What that really means is that in effect there is an invoice requirement that the purchaser, if he is a business purchaser, gets no deduction with respect to the real estate unless he has a certificate. The certificate in essence is the government's assurance that tax was paid by the vendor.

As we can well imagine, land and real estate transactions can be for a lot of money, and without some sort of certificate requirement, there may be no assurance that tax has actually been paid when the purchaser takes a deduction. There could be room for a lot of leakage or game-playing, and this has apparently been put in to minimize that possibility.

Mr. Minaker: Mr. Chairman, could I ask a question? Are you saying the new houses would be taxed, but the sale of used residential dwellings would not be?

Mr. Wood: That is correct.

Mr. Friedman: One area we really have not gotten into is when does a used dwelling become a new dwelling?

Mr. Wood: We can hit that in a second.

Mr. Minaker: You have to be kidding! I do not know where you guys are coming from.

An hon. member: Toronto.

Mr. Minaker: You lower the mortgage rate and now we rap them with the new houses.

The Vice-Chairman: They have a 30-day limit on rents, so maybe that is the time you have to live in a house to make it at last become second-hand.

Mr. Wood: Bear in mind there already is a sales tax content in new housing. There is a federal sales tax—

Mr. Minaker: Just on materials, not on labour.

Mr. Wood: That is true. It is not on the labour.

Mr. Minaker: It is two-thirds of the cost.

Mr. Wood: That is right; people say about 3.5% of the final selling price for the federal sales tax contents.

Mr. Minaker: Will there be a sale or a tax on the property as well?

Mr. Wood: Yes, it is the whole bundle of real estate, less any credits. But the end purchaser pays on that purchase price.

Mr. Minaker: The young couple who get a lower mortgage and have to pay another 8% . . .

[Translation]

Il y a une exigence de certificat. Cela signifie en fait qu'une facture doit montrer que l'acheteur, si c'est un acheteur commercial, n'obtient aucune déduction au titre du bien immobilier à moins d'avoir un certificat. Ce certificat garantit en substance au gouvernement que la taxe a été payée par le vendeur.

Comme vous pouvez tous l'imaginer, les opérations foncières et immobilières peuvent porter sur d'importantes sommes d'argent et, sans exigence de certificat, on ne peut pas toujours garantir que la taxe a effectivement été payée au moment où l'acheteur demande une déduction. Il y a là matière à de nombreuses évasions fiscales et c'est ce qui, apparemment, a motivé cette mesure.

M. Minaker: Monsieur le président, j'aimerais vous poser une question. Etes-vous en train de nous dire que les maisons neuves seront sujettes à la taxe mais que la vente des logements résidentiels non neufs ne le sera pas?

M. Wood: C'est bien cela.

M. Friedman: L'un des problèmes que nous n'avons pas véritablement évoqué, c'est la question de savoir à partir de quel moment un logement non neuf peut se transformer en un logement neuf.

M. Wood: Nous y viendrons dans un instant.

M. Minaker: Vous plaisantez! Je me demande d'où vous venez.

Une voix: De Toronto.

M. Minaker: Vous abaissez le taux d'hypothèque et nous les attendons ensuite au tournant avec les maisons neuves.

Le vice-président: Il y a une limite de 30 jours sur les loyers et c'est peut-être là le temps qu'il faut rester dans une maison pour que l'on puisse dire qu'elle n'est plus neuve.

M. Wood: N'oubliez pas qu'il y a déjà une taxe de vente incluse dans les logements neufs. Il y a une taxe de vente fédérale. . .

M. Minaker: Simplement sur les matériaux, non sur la main-d'oeuvre.

M. Wood: C'est vrai. Elle ne s'applique pas à la main-d'oeuvre.

M. Minaker: C'est les deux tiers du coût.

M. Wood: En effet; on dit que la taxe de vente fédérale représente environ 3,5 p. 100 du prix de vente final.

M. Minaker: Y aura-t-il aussi une taxe sur l'ensemble de la propriété?

M. Wood: Oui, sur la totalité du bien immobilier, moins les crédits éventuels. Toutefois, l'acheteur en bout de ligne paie en fonction de ce prix d'achat.

M. Minaker: Les jeunes couples qui obtiennent une hypothèque de montant inférieur et qui doivent payer 8 p. 100 de plus. . .

[Texte]

[Traduction]

• 2020

Mr. Wood: Of course people from the real estate sector are at the other extreme. If there was a national sales tax and you took 8% federal and added 7% provincial, you can see there could be an increase in housing costs.

I will get the economist to correct me in a second, but in the housing market, depending on the area, it is driven by the price of used homes where there is a substantial supply of used homes. It might be that the builders would not be able to pass the full shifted price on because they compete with the used housing stock which would not be subject to tax.

Mr. Lorey A. Hoffman (Committee Consultant): To clarify what we mean by used housing stock, there was once a new house. It is taxed and later became a used house. It exists in stock, but you are talking about a transition problem.

Mr. Wood: There is a transition problem and for the first while builders would not be able to forward shift the tax.

Mr. Hoffman: That is one problem. Does everyone understand why you tax the house only once, the first time?

Mr. Minaker: Provincially on used cars you only tax the differential. You do not tax it twice.

Mr. Hoffman: Perhaps it is useful, without getting too deep conceptually, to understand why you only tax the house the first time. This is a tax on consumption. When you buy a new house, what exactly are you consuming? It is the service of living, the value of the service flow you consumed living in the house. The house could last 30 years and if you could measure the value of the service flow every day or year for 30 years, conceivably you could tax the value every period.

It is a difficult thing to measure. We do not charge ourselves rent. Instead we tax all the value up-front. We re-pay the tax on the whole value of the service flow immediately. This treatment is applied to all durable goods.

When you tax a house for \$100,000 today, the price will go up by the tax content. When it is sold to someone else, it becomes a used home. The price it is sold for will reflect the tax prepaid in the first place. In a sense any future buyer of the used asset will be bearing the tax content in the purchase price.

M. Wood: Bien entendu, les gens du secteur de l'immobilier adoptent un point de vue totalement différent. S'il y avait une taxe de vente nationale, et si l'on prélevait 8 p. 100 au niveau fédéral en ajoutant 7 p. 100 pour la province, vous pouvez imaginer qu'il y aurait une augmentation du coût de la construction.

L'économiste me corrigera dans un instant, mais je pense que le marché de la construction, selon le secteur, est déterminé par le prix des maisons non neuves lorsqu'il existe une offre substantielle pour ce genre de maisons. Il est possible que les promoteurs ne puissent répercuter l'intégralité de l'augmentation de prix, parce qu'il leur faut concurrencer le parc des maisons non neuves qui ne seront pas soumises à la taxe.

M. Lorey A. Hoffman (consultant auprès du Comité): Précisons ce que l'on entend par parc de maisons non neuves. Lorsqu'elle est construite, la maison est neuve; elle est taxée et elle devient ensuite une maison non neuve. Elle fait ensuite partie du parc, mais il y a un problème de transition.

M. Wood: Il y a un problème de transition et, au départ, les promoteurs ne pourront pas répercuter la taxe.

M. Hoffman: C'est le grand problème. Est-ce que tout le monde comprend bien pourquoi vous ne taxez la maison qu'une fois, au départ?

M. Minaker: Au niveau provincial, pour les voitures d'occasion, on ne taxe que la différence. On n'impose pas la taxe deux fois.

M. Hoffman: Il est peut-être utile, sans se perdre dans des complications théoriques, de bien faire comprendre pourquoi on ne taxe la maison qu'au départ. Il s'agit d'une taxe à la consommation. Lorsque vous achetez une maison neuve, que consommez-vous en réalité? Vous consommez le service qui consiste à vivre dans cette maison, le service qui a une valeur tant que vous habitez cette maison. En supposant que vous restiez 30 ans dans cette maison, si vous pouviez mesurer la valeur du service obtenu chaque jour pendant ces 30 ans, on peut concevoir que l'on puisse taxer la valeur correspondante au titre de chaque période considérée.

Mais il s'agit d'une chose difficile à mesurer. On ne se fait pas payer à soi-même un loyer. Donc, nous imposons une taxe sur la totalité de la valeur au départ. Nous faisons payer à l'avance la taxe sur l'intégralité de la valeur du service. Ce traitement est appliqué à tous les biens durables.

Si vous imposez une taxe sur une maison de 100,000\$ à l'heure actuelle, le prix va augmenter de l'équivalent de la taxe. Lorsque la maison sera vendue à quelqu'un d'autre, elle deviendra une maison non neuve. Le prix de vente tiendra compte de la taxe payée au départ. En ce sens, on peut dire que l'acheteur futur du bien non neuf paiera le coût de la taxe contenue dans le prix d'achat.

[Text]

What Peter said is related to that. What do you do when you get over the hump, the transition period before the new tax regime, and what do you do in the future?

Mr. Warner: Depending on the market, the hump may not be all that great because you have a market for houses and you could find, especially if it is a strong market in Toronto or Ottawa, that the prices of the used houses will immediately adjust upwards. The market balance will allow the developer to sell his house at full price. As you mentioned earlier, he may have trouble passing that on or he may not, depending on market demands.

Mr. Wood: I agree.

Mr. Warner: I think the professional developer will weigh the risks involved in building new houses.

Mr. Hoffman: It could mean gains for existing holders of housing stock and existing market circumstances. There could be a lot of winners.

The Vice-Chairman: We are not adding a tax and they already own their house.

Mr. Hoffman: Their effective tax rate, bearing on the federal sales tax, is far lower.

Mr. Minaker: How do we handle it if I build my own house? Are you going to tax me on my labour?

Mr. Wood: At the moment no rules are proposed here. Some European countries have a self-supply rule.

Mr. Hoffman: It is the old household production bill.

Mr. Minaker: I am building my own cottage at the lake. What do you classify as a used house? I have lived in it for 10 years and it is not completed.

• 2025

Mr. Wood: No. You are just adding on to it. That goes back to what Andy was saying earlier, the difficulty in the dividing line. I buy an old house in downtown Ottawa, gut it, and redo it totally inside. Is that a new house?

Mr. Minaker: Do you own a house?

Mr. Friedman: Half a house.

The Vice-Chairman: Apparently the act does recognize this, but if we did consider that you add a tax on a second and third time, then obviously the person selling should have a tax credit, the same way as a wholesaler.

[Translation]

Ce que dit Peter est lié à ce phénomène. Que se passera-t-il au moment de faire le saut, de passer par la période de transition avant l'instauration du nouveau régime fiscal, et que ferez-vous à l'avenir?

M. Warner: Selon l'état du marché, il n'est pas sûr que la transition soit si difficile car, lorsque vous avez un marché pour les maisons, tout particulièrement lorsque c'est un marché dynamique comme à Toronto ou à Ottawa, vous allez constater que le prix des maisons non neuves va immédiatement s'aligner vers le haut. L'équilibre du marché va permettre au promoteur de vendre ses maisons au plein prix. Comme vous l'avez fait remarquer tout à l'heure, il éprouvera ou non des difficultés à répercuter l'intégralité de son prix, selon l'état de la demande.

M. Wood: Je suis d'accord.

M. Warner: A mon avis, les promoteurs professionnels vont évaluer les risques impliqués par la construction de maisons neuves.

M. Hoffman: Il pourrait en résulter un gain pour les propriétaires actuels de maisons selon les conditions du marché. Il pourrait y avoir beaucoup de gagnants.

Le vice-président: Nous n'ajoutons aucune taxe et ils possèdent déjà leur maison.

M. Hoffman: Leur taux d'imposition effective, qui a un lien avec la taxe de vente fédérale, est bien inférieur.

M. Minaker: Que se passe-t-il si je construis ma propre maison? Allez-vous me taxer sur ma propre main-d'oeuvre?

M. Wood: Aucune règle n'est proposée pour l'instant dans ce domaine. Certains pays européens ont des règles s'appliquant à la construction personnelle.

M. Hoffman: C'est la vieille loi sur la construction de la maison familiale.

M. Minaker: Je me construis un chalet au bord d'un lac. Allez-vous le classer dans la catégorie des maisons non neuves? J'y habite depuis 10 ans et il n'est pas encore terminé.

M. Wood: Non. Vous vous contentez d'apporter des améliorations. J'en reviens à ce qu'Andy nous a dit un peu plus tôt, la difficulté est de tracer une ligne de démarcation. Si j'achète une vieille maison du centre-ville d'Ottawa et que je la rénove de fond en comble, s'agit-il d'une nouvelle maison?

M. Minaker: Possédez-vous une maison?

M. Friedman: Une demi-maison.

Le vice-président: Il semble que la loi n'en tienne pas compte mais, si l'on envisage d'ajouter une taxe une deuxième ou une troisième fois, il faut évidemment que la personne qui vend la maison obtienne un crédit d'impôt, comme cela se pratique pour le commerce de gros.

[Texte]

Mr. Hoffman: That is right. It could be done that way.

The Vice-Chairman: In this case, at least the government would participate. The Department of National Revenue and government would benefit from the increase in value. Sometimes the increase in value is enormous, as I have seen in Toronto. You can go from \$100,000 to \$300,000. You are only taxed on the new house, which was \$100,000. Yet you are now selling, without tax, at the \$300,000 level. Is there nothing in the act to recover that capital gain or that increase in value?

Mr. Friedman: Your logic breaks down in the holding of raw land. Land is different from a house. Every time land turns over, you do tax the... is it the value added to the land? You tax the increased value of that land, or the increased perceived value. If you hold land that cost you \$100,000, resell it for \$200,000 the next year, that \$100,000 will attract that or GST. If you sell it for \$400,000, the year after, that additional \$200,000 would be taxed.

The Vice-Chairman: The new buyer would only pay the differential. He would not pay the tax on the full value, and then a credit might be issued to the vendor.

Mr. Friedman: No, it is the same logic. It is like a piece of equipment. If the party selling for \$200,000 would tack on the tax and get a credit for his purchase. Land would be like any other inventory.

Mr. Minaker: But it breaks down the logic presented about the house, that it has maybe a 30-year life, and perhaps we should tax it again. Land has a life forever, and now you are going to tax it continually every time it changes hands.

Mr. Hoffman: The property also—

Mr. Minaker: What you are differentiating is you put a house on the property. You tax it once, but every time you sell that house and property again, you do not tax it.

Mr. Friedman: You raise an interesting issue. If you have a 10-acre piece of land and you put one little house on it, does it basically protect the rest of the land from being taxed on the increment?

The Vice-Chairman: Yes.

Mr. Friedman: I am not sure.

Mr. Wood: If it is personally his property and there is no definition...

[Traduction]

M. Hoffman: C'est vrai. On pourrait procéder comme cela.

Le vice-président: De cette manière, le gouvernement participerait au moins aux bénéfices. Le ministère du Revenu national et le gouvernement dans son ensemble tireraient parti de l'augmentation de valeur. Parfois, comme j'ai pu le voir à Toronto, cette augmentation est énorme. Elle peut passer de 100,000\$ à 300,000\$. La taxe ne vous a été appliquée que sur la valeur de la maison neuve, qui était de 100,000\$. Au moment de la revente, vous en retirez 300,000\$ exonérés de taxe. N'y a-t-il aucune disposition dans la loi qui nous permette de recouvrer ce gain en capital ou cette augmentation de valeur?

M. Friedman: Votre logique est prise en défaut lorsqu'on détient un terrain non bâti. Les terrains sont traités différemment des maisons. Chaque fois que le terrain change de main, vous taxez... la valeur ajoutée du terrain, si je ne me trompe? Vous taxez l'augmentation de valeur de ce terrain ou l'augmentation telle qu'elle est perçue. Le propriétaire d'un terrain qui lui a coûté 100,000\$ et qu'il revend 200,000\$ l'année suivante doit payer une taxe sur la différence de 100,000\$. Si le terrain est vendu 400,000\$ l'année suivante, les 200,000\$ de différence seront taxés.

Le vice-président: Le nouvel acheteur n'aura qu'à payer sur la différence. Il n'aura pas à payer la taxe sur la valeur intégrale de la propriété et un crédit pourra être remis au vendeur.

M. Friedman: Non, c'est la même logique. C'est comme dans le cas d'un équipement. La personne qui vend à 200,000\$ paie la taxe et obtient un crédit au titre de son achat. Les terrains seront traités comme tout autre bien.

M. Minaker: Mais ce n'est pas la même logique que celle de la maison, dont la durée de vie est peut-être de 30 ans, et qui devrait peut-être être taxée à plusieurs reprises. Les terrains ont une durée de vie illimitée et on va maintenant les taxer chaque fois qu'ils vont changer de main.

M. Hoffman: Les propriétés aussi...

M. Minaker: La différence, c'est lorsque vous construisez une maison sur ce terrain. La taxe ne s'appliquait qu'au départ et chaque fois que vous revendez la maison et le terrain, il n'y a pas de taxe.

M. Friedman: Vous soulevez là une question intéressante. A partir du moment où vous mettez une petite maison sur un terrain de 10 acres, est-ce que vous vous évitez d'avoir à payer la taxe sur l'augmentation de valeur de ce terrain?

Le vice-président: Oui.

M. Friedman: Je n'en suis pas sûr.

M. Wood: S'il s'agit d'une propriété personnelle et il n'y a pas de définition...

[Text]

Mr. Weyman: You say there is an exemption for sales of personal use properties. Does that include bare land, just the piece of land where you are going to build your cottage in the future? If in fact you resell it, because it is personal use, is land itself treated as a personal use property that could be exempt?

Mr. Wood: I think so. We are just looking at the words here on page 115. It has to be used primarily for the personal use and enjoyment of the taxpayer, and if I walk up to my 100 acres and walk around the property every month—

Mr. Weyman: And tent there occasionally.

Mr. Wood: —and tent there occasionally, and have a picnic on Sundays. . .

The Vice-Chairman: I am going to ask the witnesses and the committee to move to the next issue, only because I know we have a long schedule. There is the apportionment factor on that page.

Mr. Wood: It seems at first that for most people apportionment is relatively simple, but because there is an exemption. Residents or rents, for instance, are exempt, and we could get into apportionment problems. For instance, you might have a building that is a hotel on the first few floors and long-term rental units on the top floors. That landlord would have to differentiate on his inputs between those that went to the hotel, for which he gets a credit, and those going to the long-term residential floors. So he could have an apportionment problem.

Think of a small business, where the fellow lives upstairs in the building and his store is down below. He has a parking lot outside that is used for his personal use and also for his customers. He has apportionment of his fuel bills, hydro bills and so on. There are some apportionment problems.

• 2030

Mr. Friedman: If I might add, it becomes more global because you see large real estate companies that may hold some rental properties, commercial, residential, shopping centres, whatever, a mixture. They are in some way going to have to do an allocation on certain head office expenses as well. So it is not just one location; it is the world of a real estate corporation.

Mr. Wood: There are also some rules in there to prevent somebody from getting an input tax credit for his personal property. For instance, unless an office in a house is more than half of the house, he gets no credit. Even though he is using that for business purposes, he is

[Translation]

M. Weyman: Vous nous dites qu'il y a une exonération de la taxe en cas de vente d'une propriété à usage personnel. Faites-vous entrer dans cette catégorie les terrains non bâtis, soit le type de terrain sur lequel vous pensez édifier à l'avenir un chalet? Si vous le revendez ensuite, puisqu'il s'agit d'une propriété à usage personnel, le terrain lui-même sera-t-il traité comme un bien à usage personnel susceptible d'être exonéré du paiement de la taxe?

M. Wood: Oui, je pense. Nous regardons justement la façon dont la chose est formulée à la page 115. Il faut avant tout que la propriété soit réservée au propre usage du contribuable et que ce dernier en tire personnellement jouissance. Si je me promène dans ma propriété de 100 acres et que j'en fasse le tour tous les mois. . .

M. Weyman: Et que j'y campe à l'occasion.

M. Wood: . . . que j'y campe à l'occasion et que j'organise des pique-niques le dimanche. . .

Le vice-président: Je vais demander aux témoins et au Comité de passer à la question suivante, tout simplement parce que je sais que nous avons beaucoup de travail devant nous. Je vois sur cette page qu'il y a un coefficient de répartition.

M. Wood: Il apparaît à première vue que pour la plupart des gens, la répartition est relativement simple mais, étant donné qu'il y a des exemptions pour les résidents ou les locataires, par exemple, des problèmes de répartition peuvent se poser. Il se peut, par exemple, que les deux premiers étages d'un bâtiment soient utilisés par un hôtel et que les autres abritent des logements loués à long terme. Le propriétaire devra effectuer une ventilation entre ses entrées d'argent qui proviennent de l'hôtel, pour lesquelles il obtiendra un crédit, et celles qui résultent de logements résidentiels à long terme. Il pourra donc y avoir un problème de répartition.

Pensez aux petites entreprises dont le propriétaire vit à l'étage alors que le magasin est situé en bas. Il possède un parc de stationnement qu'il utilise personnellement et qui sert aussi à ses clients. Il doit effectuer une répartition sur ses factures de chauffage, d'électricité, etc. Il y a un certain nombre de problèmes de répartition.

M. Friedman: J'aimerais ajouter que le problème est peut-être plus général car il y a de grosses sociétés immobilières qui vont posséder à la fois des propriétés locatives, commerciales, résidentielles, des centres commerciaux, enfin, tout un amalgame. Il va leur falloir d'une certaine manière effectuer aussi une répartition de leurs frais généraux. Le problème ne se limite donc pas à un lieu particulier, il touche tout le monde de l'immobilier.

M. Wood: Il y a aussi un certain nombre de règles visant à éviter qu'un particulier tire un crédit d'impôt au titre des facteurs de production sur sa propriété personnelle. C'est ainsi que, tant qu'un bureau n'occupe pas la moitié de la surface d'une habitation, il n'obtient

[Texte]

stopped from getting the input tax credit. So there is some avoidance rules to ensure that no input tax credit is allowed on property that is primarily for personal use.

There is also a self-supply rule for developers—for example, somebody who goes out and buys a rental building that is already erected. If he buys a new one, he would pay tax on the full value. If on the other hand he constructed it himself and used his own labour, then he would avoid tax on the value of his own labour. The proposals include a self-supply for developers, so that through some mechanism, when the developer builds it himself, there would be tax due on a notional value reflecting his value added.

Mr. Weyman: [Inaudible—Editor]. . . this discussion in the real estate area, the kinds of complexities that are introduced when you have exemptions. All of these points that have been made about the allocation issue, and the self-supply rule that is required for developers, reflect the fact that we have exemptions in this area. That is the trade-off that you have to have.

Mr. Minaker: David, what is the sales tax now on materials? Is it 6%?

Mr. Friedman: I believe it 8%.

Mr. Minaker: Let me do a quick calculation. If you have a home around \$100,000 at 12% interest mortgage, we are going to add about \$140 a month for 20 years for that tax. Right now the tax probably represents 6% on a third of the cost, which would be—or 8% on \$30,000 if it is not on land. Land probably would represent \$40,000 in that—

Mr. Friedman: Maybe even less, because the 8% would be on a manufactured cost, and if it passes through a number of payments—

Mr. Minaker: So it might end up being \$1,000 or something, but if the individual cannot find the \$10,000 of tax that is going to be on that transaction—your 12% interest—you are looking at about \$140 per month for 20 years on a 20-year mortgage.

Mr. Weyman: The sales tax content on a house is about 5%, I think you said, of the total selling price. So on a 100,000 home there might be \$3,500 of tax today embedded in that price.

[Traduction]

aucun crédit. Même lorsque ce particulier en fait une utilisation à des fins particulières, il est exclu qu'il touche le crédit d'impôt au titre des facteurs de production. Il y a donc un certain nombre de règles permettant de lutter contre l'évasion fiscale et de s'assurer qu'un crédit d'impôt n'est pas accordé au titre des facteurs de production sur des propriétés affectées avant tout à des usages personnels.

Il y a aussi une règle s'appliquant aux promoteurs lorsqu'ils s'approvisionnent pour leur propre compte. Prenons le cas, par exemple, d'une personne qui achète un bâtiment à usage locatif déjà construit. S'il avait acheté un bâtiment neuf, il aurait payé la taxe sur la valeur intégrale de la propriété. Par contre, s'il le construit lui-même et utilise sa propre main-d'oeuvre, il va éviter de payer la taxe s'appliquant à la main-d'oeuvre. Par le biais de ce mécanisme, le promoteur qui construit lui-même va payer une taxe sur une valeur imputée qui correspond à sa propre valeur ajoutée.

M. Weyman: [Inaudible—Éditeur]. . . Cette discussion porte sur le domaine de l'immobilier, sur le type de complications auxquelles on en arrive avec les exemptions. Toutes les discussions que nous avons eues sur la question de la répartition et sur la règle s'appliquant aux promoteurs qui construisent un bâtiment pour leur propre compte s'expliquent par le fait que nous avons établi des exemptions dans ce domaine. C'est là la juste contrepartie des choses.

M. Minaker: David, quel est actuellement le montant de la taxe de vente sur les matériaux ? Est-ce que c'est 6 p. 100 ?

M. Friedman: Je pense que c'est 8 p. 100.

M. Minaker: Laissez-moi faire un calcul rapide. Supposons que vous ayez une maison valant environ 100,000\$ avec une hypothèque portant intérêt à 12 p. 100; cette taxe va ajouter quelque 140\$ de plus par mois pendant vingt ans. A l'heure actuelle, la taxe représente probablement 6 p. 100 sur un tiers du coût, ce qui fait—ou encore 8 p. 100 sur 30,000\$ lorsqu'il ne s'agit pas d'un terrain. Le terrain va représenter quelque chose comme 40,000\$ puisque. . .

M. Friedman: Peut-être moins encore, parce que les 8 p. 100 vont s'appliquer au coût du produit manufacturé et s'ils sont répercutés sur un certain nombre de paiements. . .

M. Minaker: Donc ça donnera peut-être finalement 1,000\$ ou quelque chose comme ça mais, si la personne en question ne parvient pas à réunir les 10,000\$ qui correspondent à la taxe imposée sur cette transaction, avec vos 12 p. 100 d'intérêt, cela donne quelque 140\$ par mois pendant vingt ans pour une hypothèque de vingt ans.

M. Weyman: Vous nous avez dit, il me semble, que la taxe de vente sur une maison d'habitation représentait environ 3,5 p. 100 du prix de vente total. Donc, pour une maison de 100,000\$, il devrait y avoir quelque chose comme 3,500\$ de taxe inclus dans ce prix.

[Text]

Mr. Minaker: So we are adding at least \$7,000 then.

Mr. Friedman: Did you say 10%?

Mr. Minaker: I said 8%, by the time the provincial boys pick up their loss.

Mr. Friedman: It depends on whether basic groceries are added. It is interesting whether the provinces would jump on the bandwagon as well on—

The Vice-Chairman: Whether or not the market would support the increased tax load or whether the property seller would have to simply reduce his price to sell the house at market level is a good question.

Miss Nicholson: Yes, the notion value that might be assigned to a house... I do not think there is anything in the white paper on how that would work, is there?

Mr. Wood: Do you mean when a developer builds a rental building?

Miss Nicholson: Yes. How would the value be assigned?

Mr. Wood: There are a number of own-use formulas. I am not sure whether one is laid out in this paper, but right now under the existing federal sales tax, where people do printing for their own use or build machinery for their own use, Revenue Canada has developed various formulas to approximate the value.

The Vice-Chairman: A replacement value based on the—

Mr. Wood: It could be, or maybe the cost of all the materials is added up. Add up your labour, add on 15% for profit. Various approaches have been used by the taxing authorities.

• 2035

Mr. Friedman: They have found that to have some holes in it. I believe Revenue Canada, Customs and Excise issued certain interpretations in December that say manufacturing for own use will now be based on fair market value. So the government may decide to appraise apartment buildings or do it some other way, but Excise has felt that there are some problems with the purely mechanical computations.

The Vice-Chairman: Shall we move on to a comparison with New Zealand and the U.K.?

Mr. Wood: In New Zealand, the original proposals made a distinction between land and buildings, and only the building element was taxable. During the public consultation process, the public put a lot of pressure on to

[Translation]

M. Minaker: Donc, nous ajoutons au moins 7,000\$.

M. Friedman: Avez-vous dit 10 p. 100 ?

M. Minaker: J'ai dit 8 p. 100 à partir du moment où les gens de la province vont rattrapper leur perte.

M. Friedman: Tout dépend si on ajoute ou non les dépenses courantes. Il serait intéressant de savoir si les provinces vont prendre le train en marche ainsi que... .

Le vice-président: Si le marché va pouvoir absorber l'augmentation de taxe ou si le vendeur de la propriété devra tout simplement réduire son prix pour vendre sa maison au prix du marché; voilà une bonne question.

Mme Nicholson: Oui, cette question de valeur susceptible d'être imputée à une maison... Je ne pense pas qu'on ait dit dans le Livre blanc comment cette chose-là va fonctionner; est-ce que je me trompe ?

M. Wood: Est-ce que vous vous référez au cas du promoteur qui construit un bâtiment à usage locatif ?

Mme Nicholson: Oui. Comment va-t-on imputer cette valeur ?

M. Wood: Il y a plusieurs formules. Je ne suis pas sûr qu'il y en ait une de mentionnée dans le Livre blanc, mais on sait qu'à l'heure actuelle, en vertu de la taxe de vente fédérale, Revenu Canada a mis au point différentes formules pour calculer de manière approximative la valeur d'un travail d'imprimerie qu'une personne fait pour son propre compte ou de la construction d'une machine qu'elle utilise personnellement.

Le vice-président: On peut prendre la valeur de remplacement calculée d'après... .

M. Wood: C'est une possibilité, ou on peut aussi tenir compte du coût de tous les matériaux incorporés, ajouter le coût de la main-d'oeuvre et 15 p. 100 au titre des profits. Différentes méthodes ont été mises à profit par le fisc.

M. Friedman: On s'est aperçu aussi que ces méthodes présentaient un certain nombre de failles. Il me semble que Revenu Canada, Douanes et Accise, a publié en décembre un bulletin d'interprétation disant que les biens manufacturés en vue d'en faire un usage personnel auraient désormais une valeur calculée d'après leur juste valeur sur le marché. Le gouvernement pourra donc décider d'évaluer les édifices à appartement ou d'adopter toute autre méthode de calcul, mais il n'en reste pas moins que le service de l'Accise a jugé que les calculs purement mécaniques posaient un certain nombre de problèmes.

Le vice-président: Pouvons-nous maintenant passer à la comparaison avec la Nouvelle-Zélande et le Royaume-Uni ?

M. Wood: En Nouvelle-Zélande, les propositions faites à l'origine établissaient une distinction entre les terrains et les bâtiments et seul l'élément bâtiment était taxable. Lors de la procédure de consultation du public, l'opinion

[Texte]

combine the two and tax the land. As implemented, it is very close to the Canadian proposals.

Apparently it had been possible to make the distinction because there was some sort of national registry system for some other purpose where land had been separately valued from the buildings. So it would be interesting when you go to New Zealand to talk to them about their change and why they have made the changes.

In the U.K., construction is tax-free or zero-rated. On the other hand, repairs are taxable, so you get questions about when a repair is a renovation and therefore tax-free, or when it is just a repair. When you have drawn a line, there are always border problems. There has been some speculation in the press that the U.K. will tax construction fully in the next budget.

Farming and fishing, page 4-4—there is very little in the white paper or in the government's proposals on farming and fishing. It will depend on the exact form of the tax and how food is treated. There are a few things that we would like to remind you of.

Since anyone who is an intermediary in the chain gets the tax back, pays the tax and gets it back—it is only a tax on final consumption—farmers will want to participate in the system so that they can get all the taxes back on their inputs. For instance, in federal sales tax they now get some of the taxes back, but not all of the taxes; there are taxes still in their construction materials, their trucks, the buildings, and in the various services they acquire. Their legal or accounting services are indirect taxes, which would be completely eliminated if the farmer or fisherman were totally in the system. They would get a complete refund on all of the inputs that are business related. So there would be some incentive to participate.

As well, farmers have substantial export sales. Provided you get all the tax back on your inputs and your exports are zero-rated or tax-free, both the direct and indirect taxes are eliminated from the product, which should be attractive to farmers and fishermen.

The Vice-Chairman: It strikes me that there was a time when there was a major question about the taxing of fuel

[Traduction]

publique a fait largement pression pour que l'on combine les deux et que l'on taxe les terrains. Telle que la proposition est appliquée à l'heure actuelle, elle se rapproche beaucoup des propositions canadiennes.

Apparemment, il a été possible là-bas de faire cette distinction parce qu'il existait un certain type de cadastre national établi à d'autres fins et séparant la valeur des bâtiments de celle des terrains. Il serait donc intéressant d'aller en Nouvelle-Zélande et de demander aux responsables quels ont été les changements effectués et la raison de ces changements.

Au Royaume-Uni, la construction n'est pas assujettie à la taxe ou elle est taxée au taux zéro. Par contre, les réparations sont sujettes à la taxe et il s'agit donc de savoir si une réparation constitue une rénovation et se trouve donc exonérée de la taxe, ou s'il ne s'agit purement et simplement que d'une réparation. Lorsque vous tracez une ligne de démarcation, il y a toujours des problèmes de frontière. On a pu lire dans la presse que le Royaume-Uni allait taxer intégralement la construction dans le prochain budget.

L'agriculture et la pêche, page 4-4—il n'y a pas grand-chose dans le Livre blanc ou dans les propositions du gouvernement sur l'agriculture et sur les pêches. Tout dépendra de la forme que prendra exactement la taxe et de la façon dont seront traités les produits alimentaires. Il y a cependant un certain nombre de choses sur lesquelles nous voudrions attirer votre attention.

Étant donné que tous les intermédiaires de la chaîne obtiennent un remboursement de la taxe, c'est-à-dire qu'ils paient la taxe et qu'ils se la voient restituer—puisque'il ne s'agit que d'une taxe à la consommation en bout de chaîne—les agriculteurs voudront prendre part au système de façon à pouvoir obtenir le remboursement de toutes les taxes payées sur leurs facteurs de production. Ainsi, avec la taxe de vente fédérale actuelle, ils obtiennent le remboursement d'une partie de leurs taxes, mais non de la totalité; il reste encore des taxes incorporées dans leurs matériaux de construction, dans leurs camions, leurs bâtiments ainsi que dans les différents services qu'ils acquièrent. Leurs services juridiques et comptables incorporent des taxes indirectes qui seraient totalement supprimées à partir du moment où l'agriculteur ou le pêcheur seraient pleinement intégrés au système. Ils obtiendraient un remboursement intégral sur tous les biens de production liés à l'exploitation d'une entreprise. Ils seront donc incités à participer au système.

Par ailleurs, les agriculteurs paient des taxes substantielles sur les ventes à l'exportation. A partir du moment où vous obtenez le remboursement de toutes les taxes payées sur les facteurs de production et où les exportations sont exonérées de taxe ou assujetties à un taux de zéro, les taxes directes et indirectes sont toutes supprimées sur l'ensemble des produits, ce qui devrait être une bonne affaire pour les agriculteurs et les pêcheurs.

Le vice-président: Cela me rappelle soudainement qu'il y a eu une époque où l'on a beaucoup parlé du fait de

[Text]

to farmers. Where would that fit in this? We are talking of an excise tax, not a sales tax. Are we in fuel that goes to farms? I think that there is a rebate or credit process in effect anyway.

Mr. Wood: No. You are quite right to the extent that farmers and fishermen have taxes on their inputs now. There is a fairly complicated mechanism of refunds both on the federal sales tax side and the excise tax side. These documents are quite silent on the excise tax side.

Mr. Warner: I just want to comment briefly that farmers and fishermen are going to want to be tax-free or zero-rated as opposed to being tax-exempt. This is part of the terminology we are learning today. Farmers and fishermen are also going to have to understand that they do not want to be tax-exempt; they want to be tax-free and zero-rated.

• 2040

Mr. Wood: I agree. We were talking earlier about the example that is always used in France when it was introduced; the farmers said they wanted to be exempt and they did not realize that to be exempt is to be taxable in this kind of system. The government agreed to let them be exempt, but allowed them to elect if they wanted to be taxable, and over time most farmers ended up electing to be taxable.

In Europe, even if they are tax-free, you need some mechanism to get the tax back on the inputs to the farmer. It could be the regular mechanism, or in Europe there are some special schemes that just add up their purchases and take a percentage of the purchases in order to make it a little easier for the farmers and fishermen to get the tax back.

Mr. Friedman: Remember what you are replacing, though. I guess one of the concerns currently is that a farmer can go out and buy all his or her implements, free of federal sales tax and in some cases free of provincial sales tax. They can buy their machinery and a lot of their equipment. Now, you are asking them to pay the tax and then to take time from their easy life and to file refund claims. We have not mentioned that one of the other suggestions is somehow to keep them outside of the system and to basically not have them collect the tax but to give them a credit back somehow or to have some other arrangement. I think this is what some of the groups suggest in order to reduce the amount of paper work that they have to go through in order to keep themselves from bearing some of this tax.

[Translation]

taxer le combustible des agriculteurs. Quel est le rapport avec le sujet qui nous occupe? Nous parlons là d'une taxe d'accise et non d'une taxe de vente. Touchons-nous au combustible utilisé par les fermes? Je pense qu'il y a de toute façon un mécanisme de remise ou de crédit d'impôt qui s'applique.

M. Wood: Non. Vous avez tout à fait raison, en ce sens que les agriculteurs et les pêcheurs paient à l'heure actuelle des taxes sur leurs facteurs de production. Il existe un mécanisme assez complexe de remboursement à la fois de la taxe de vente fédérale et de la taxe d'accise. Ces documents sont assez muets dans le cas de la taxe d'accise.

M. Warner: J'aimerais aussi faire observer rapidement que les agriculteurs et les pêcheurs vont vouloir ne pas avoir à payer de taxe ou être taxés à un taux de zéro et non pas être simplement exonérés du paiement de la taxe. Cela fait partie de la terminologie que nous apprenons aujourd'hui. Les agriculteurs et les pêcheurs devront aussi apprendre que ce qu'il leur faut, ce n'est pas d'être exonérés du paiement de la taxe, mais de ne pas avoir à payer de taxe ou d'être taxés à un taux de zéro.

M. Wood: Je suis d'accord. Nous avons mentionné tout à l'heure l'exemple qui est toujours utilisé à propos de la France, où ce type de taxe a été introduit; les agriculteurs voulaient être exonérés de la taxe et ils ne se sont pas rendu compte qu'«exonérés» voulait dire être taxables dans ce type de système. Le gouvernement a accepté de les exonérer mais leur a permis de choisir d'être taxables s'ils le voulaient et, avec les années, la plupart des agriculteurs ont choisis d'être taxables.

En Europe, même si les facteurs de production de l'agriculteur sont exonérés d'impôt, il faut toujours un mécanisme quelconque pour obtenir le remboursement de la taxe. On peut le faire selon le mécanisme normal ou, comme en Europe, où il existe des dispositifs spéciaux pour faire la somme des achats et prendre un pourcentage sur ces achats de façon à ce qu'il soit un peu plus facile pour les agriculteurs et les pêcheurs d'obtenir un remboursement de la taxe.

M. Friedman: N'oubliez pas, cependant, ce que vous remplacez. A mon avis, l'un des problèmes à l'heure actuelle, c'est qu'un agriculteur peut aujourd'hui entrer dans un magasin et acheter tout son matériel sans payer la taxe de vente fédérale et, dans certains cas, sans payer la taxe provinciale. Il peut ainsi acheter toutes ses machines et une bonne partie de son équipement. Voilà qu'aujourd'hui vous lui demandez de payer la taxe et de passer une partie de son temps précieux à remplir des demandes de remboursement. Vous nous avez dit que l'une des propositions de rechange consisterait à le laisser en dehors du système et, en fin de compte, à ne pas lui demander de percevoir la taxe mais à lui rembourser en quelque sorte un crédit ou à procéder en ce sens, d'une manière quelconque. Je pense que c'est là ce qu'un certain nombre de groupes proposent de façon à réduire

[Texte]

The Vice-Chairman: The obvious one is to be to leave them with the same status they have now. Did that not work in Europe? In other words, the farmers just did not pay tax in the first place.

Mr. Wood: No. You want to do more than to just leave them in the same status they are now, because now they are not getting all of the taxes back. If they participate in the system then they would be getting all the taxes back. There are taxes that are still locked in, in the farm inputs. As Andy says, some of the goods are exempt right now for federal sales tax but others are still taxable.

For some, although they are are exempted, the farm dealer actually have to file refund claims for them. They will want to participate but there might be some scheme to allow them to pay no tax on their sales, for instance, but to give them a reduced refund back; it in effect is an average of their margin, if they just file refund claims and pay nothing on the sales side. This is the scheme used in some of the European countries.

Mr. Weyman: If food is going to be tax-free at the farm gate, zero-rated we will assume, presumably you could not follow such an approach, because you are starting with a zero tax take for the farmer. If they are going to have anything in their pocket, there has to be a refund to them in some way. This would lead to a position where they would at least have to file some claim to get the tax back.

Mr. Wood: Even though food might be exempt, would there not be some products, such as cow corn or something, that might be taxable? Where does the food line stop?

Mr. Weyman: If there is such a distinction by which some products are taxable, then farmers are in the tax system and will be filing just like any other taxpayer. They will have some sales that are zero-rated and some that are taxed at the 8% rate or whatever rate it is; they will file and take credit for tax on all their input. Whatever the balance is, it will either be due to the government or due from the government. They will be no different in this regard.

Mr. Friedman: The solution would be that if no farmer sold directly to consumers, then you could make them all taxable, withhold the tax and then be able to recover their

[Traduction]

la paperasserie administrative qui les envahit et à ne pas payer le coût de cette taxe.

Le vice-président: La solution qui vient immédiatement à l'esprit serait de ne pas changer leur situation actuelle. Est-ce que cette solution n'a pas donné de bons résultats en Europe? En d'autres termes, les agriculteurs ne payaient tout simplement pas d'impôt au départ.

M. Wood: Non. Il n'est pas question de se contenter de les laisser en situation actuelle parce qu'aujourd'hui ils n'obtiennent pas le remboursement de toutes les taxes qu'ils payent. En étant intégrés au système, ils obtiendraient le remboursement de toutes ces taxes. Il reste des taxes incorporées au coût des facteurs de production agricoles. Comme l'a fait remarquer Andy, certains produits sont déjà exonérés à l'heure actuelle de la taxe de vente fédérale mais d'autres restent taxables.

Pour certains articles, même s'ils sont exonérés, le négociant agricole doit en fait remplir une demande de remboursement à leur égard. Les agriculteurs voudront être intégrés au système, mais il faudrait qu'un mécanisme leur permette, par exemple, de ne pas payer de taxe sur leurs ventes et d'obtenir un remboursement réduit; cela joue en effet sur leur moyenne, s'ils n'ont qu'à remplir des demandes de remboursement et s'ils n'ont rien à payer sur les ventes. C'est un système utilisé dans certains pays européens.

M. Weyman: En supposant que les produits alimentaires soient exonérés de la taxe en sortant de la ferme, c'est-à-dire qu'ils soient taxés à un taux égal à zéro, on peut penser qu'une telle solution sera exclue puisque l'on aura au départ un prélèvement de taxe égal à zéro pour l'agriculteur. Si l'on veut qu'ils puissent se mettre quelque chose dans la poche, il faut leur accorder un remboursement d'une manière ou d'une autre. On arrivera ainsi à une situation où il leur faudra au minimum remplir une demande pour se faire rembourser la taxe.

M. Wood: Même si les produits alimentaires sont exonérés, n'y aurait-il pas certains produits, comme le maïs destiné à l'alimentation du bétail, qui seront soumis à la taxe? Où s'arrête la catégorie des produits alimentaires?

M. Weyman: A partir du moment où l'on fera une telle distinction selon les différents produits assujettis à la taxe, les agriculteurs seront intégrés au système et devront donc remplir une déclaration comme tous les autres contribuables assujettis à la taxe. Il y aura des ventes correspondant à une taxe dont le taux sera de zéro et d'autres qui seront taxées à un taux de 8 p. 100 ou à tout autre taux applicable; il leur faudra faire une déclaration et obtenir un crédit au titre de la taxe payée sur tous leurs facteurs de production. Quel que soit le solde, il sera soit dû au gouvernement, soit dû par le gouvernement. Ils ne seront pas traités différemment de ce point de vue.

M. Friedman: La solution serait, si aucun agriculteur ne vendait directement aux consommateurs, de tous les assujettir à la taxe, de retenir la taxe puis d'être en mesure

[Text]

credits from their holdings and remit the difference. Unfortunately, that does not allow for farmers selling directly; if they sell directly, then the goods cannot be taxable.

Mr. Weyman: There are also farmers who do, as we have said earlier, export wheat and so on. Clearly they will need to be taxable within the tax system, even though they are taxed at a zero rate, and to file for the tax refunds with respect to their purchases. I mean, it does seem if you look at the totality of this that farmers as a group will be taxpayers in the sense that they will be within the system and filing tax returns or claims or whatever we call them, basically to get a refund of tax.

• 2045

Mr. Friedman: Because there are mixed use purchases that a farmer might make, much more so than any other business, there is going to be some need for very clear guidelines as to what is creditable and what is not. Again, these things will have to be policed in some way.

Mr. Warner: Your discussion seems to be suggesting that farmers who are purely in farming without doing the other work like painting canoes that Michael Cassidy's farmers were doing earlier are going to have money out into tax if we do not design a special refund system.

If they have input costs that are taxable and they pay the tax, there is going to be a cashflow problem for them unless we design a special system that is going to assist those pure farmers. The mixed-use purchases, that is another problem, but I think we have a large number of farmers who are just in farming and who will be very concerned about paying a tax on various input costs and having to wait some period of time to get that refund.

At times when farming is very difficult, this cashflow complication is an added difficulty that is not going to be appreciated. As designers of new tax reform, we have to be very careful. I think we have to design something that will accommodate those special needs.

Mr. Weyman: I might add that is borne out very clearly by the difficulties that followed the introduction of that rebate system for the off-highway use of the vehicles, the rebate vis-à-vis the excise tax and the sales tax that was

[Translation]

de recouvrer leurs crédits sur leurs avoirs et de leur remettre la différence. Malheureusement, ce système ne tient pas compte du cas des agriculteurs qui vendent directement aux consommateurs; s'ils vendent directement, les produits ne peuvent pas être assujettis à la taxe.

M. Weyman: Il y a aussi le cas des agriculteurs—nous en avons parlé précédemment—qui exportent du blé, etc. De toute évidence, il faudra qu'ils soient taxés dans le nouveau système fiscal, même s'ils le sont à un taux égal à zéro, et qu'ils remplissent une déclaration pour obtenir un remboursement de la taxe au titre des achats qu'ils auront effectués. Si vous prenez la situation dans son ensemble, vous voyez bien que les agriculteurs constituent un groupe de contribuables puisqu'ils agissent dans le cadre du système fiscal et remplissent des déclarations d'impôt, ne serait-ce que pour obtenir un remboursement d'impôt.

M. Friedman: Étant donné que l'agriculteur, beaucoup plus que d'autres types d'entrepreneurs, est appelé à faire des achats qui se prêtent à une utilisation mixte, il faudra formuler des directives très précises quant aux dépenses qui peuvent être déduites et celles qui ne le peuvent pas. Il est évident que ce genre de choses doit être soumis à quelque procédure de contrôle.

M. Warner: Dans vos explications, vous semblez dire que les agriculteurs qui ne sont qu'agriculteurs, c'est-à-dire qui n'ont pas d'autres activités rémunérées telles que peindre des canoës, comme le faisaient les agriculteurs cités par Michael Cassidy, vont avoir à payer des impôts si l'on ne parvient pas à mettre en place un système spécial de remboursement.

S'ils se procurent des facteurs de production dont le coût est taxable et qu'ils paient donc la taxe, ils vont se retrouver avec des problèmes de trésorerie à moins que l'on ne parvienne à mettre en place un système spécial destiné à aider les agriculteurs qui ne font que de l'agriculture. L'achat de biens se prêtant à une utilisation mixte constitue un autre problème, mais un grand nombre d'agriculteurs ne font que ça et ils s'inquiètent d'avoir à payer une taxe sur l'achat de divers facteurs de production et d'avoir à attendre pour en obtenir le remboursement.

Lorsque l'agriculture se porte mal, le problème de trésorerie que peuvent entraîner pour eux les dispositions fiscales en vigueur, constitue pour les agriculteurs un problème supplémentaire dont ils n'ont vraiment pas besoin. En tant que responsables de la réforme fiscale, nous devons nous montrer extrêmement prudents. Je pense que nous allons devoir trouver les moyens de répondre à ces besoins particuliers.

M. Weyman: J'aimerais ajouter que cette analyse est confirmée par la situation difficile qu'avait créée l'adoption du système de ristournes pour l'utilisation des véhicules hors route, c'est-à-dire les ristournes applicables

[Texte]

introduced several years ago. The fact that there was a need then to wait for the cheque to come back from the government caused the same kind of concerns and difficulties you have just been alluding to, Mr. Warner.

Mr. Warner: You have certain suggestions. I know you have touched on it. Can you be more specific in offering suggestions as to how we might design a sales tax that would accomplish that refund immediately. I do not think I would want a waiting time. I would not want to have to have the farmer go to finance that cashflow complication.

Mr. Wood: Providing his outputs are tax free, he is almost always going to be in a refund position. Perhaps he could file more frequently. He could file monthly or weekly.

Mr. Weyman: An exemption certificate mechanism, such as we talked about earlier in relation to retail sales tax. . .

Mr. Wood: Then you go back into the problems where the vendor to the farmer has to say: Is this man a hobby farmer; is he a real farmer in business? There is an obligation on the supplier to the farmer to make some inquiries.

Mr. Warner: There is a certain amount of pressure on the Finance Department to make that determination now, or Revenue Canada to.

Mr. Minaker: On the income side.

Mr. Warner: Who is a farmer and who is not a farmer is something that may have more importance under this new system.

Mr. Friedman: We are not just only thinking about machinery equipment, it could be grain feed, livestock, it could be seed, it could be a lot of things where the tax is added on. It is an issue, because what you are doing in this case is replacing an outright exemption with a tax and a credit.

Mr. Minaker: Would farm land be taxed and then the farmer applies for the tax rebate?

Mr. Wood: That is correct, although my recollection is that there is a special scheme where there is a transfer from a farmer to a farmer of farm land, or within the family. But you are right. It is subject to the certificate rules and the same rules; it will be taxed and then a refund.

[Traduction]

à la taxe d'accise et à la taxe de vente qui avaient été adoptées il y a plusieurs années. Le fait d'avoir à attendre la réception d'un chèque de remboursement émis par le gouvernement allait entraîner de nombreuses inquiétudes et de nombreuses difficultés, comme M. Warner vient de nous l'expliquer.

M. Warner: Vous avez sans doute certaines propositions à faire. Je sais que vous vous êtes penché sur la question. Pourriez-vous nous offrir des propositions précises quant à la manière dont nous pourrions formuler les dispositions applicables à cette taxe de vente afin d'obtenir un remboursement immédiat. Je pense qu'il ne doit y avoir aucune attente. Je préfère ne pas obliger l'agriculteur à emprunter pour résoudre les problèmes de trésorerie que nous pourrions lui occasionner.

M. Wood: Si les résultats de son activité professionnelle ne sont pas imposables, il se trouve dans presque chaque cas en mesure d'obtenir un remboursement. Peut-être l'agriculteur pourrait-il remplir des déclarations plus fréquemment, chaque mois ou chaque semaine.

M. Weyman: Alors un mécanisme prévoyant la délivrance d'un certificat d'exemption ainsi que nous en avons discuté antérieurement au sujet de la taxe de vente au détail. . .

M. Wood: Mais cela nous remet dans la situation difficile où celui qui vend quelque chose à l'agriculteur doit se demander s'il s'agit d'un agriculteur du dimanche ou s'il s'agit d'un agriculteur purement et simplement? Comme vous le voyez cela oblige le fournisseur à s'interroger sur la situation réelle de l'agriculteur qui se fournit chez lui.

M. Warner: Le ministère des Finances ou Revenu Canada se trouve à l'heure actuelle plus ou moins dans l'obligation de trancher la question.

M. Minaker: Ça c'est pour le revenu.

M. Warner: Qu'est-ce qu'un agriculteur? Eh bien cette question-là va peut-être, dans le cadre du nouveau système, revêtir une importance encore plus grande.

M. Friedman: Nous ne parlons pas seulement d'équipement mécanique. Il peut s'agir de céréales de fourrage, de bétail, de graines. Il pourrait donc s'agir de bien des choses soumises à la taxe de vente. Cela pose un problème parce que, dans ce cas précis, vous remplacez l'exemption complète par un système qui comprend une taxe et une ristourne.

M. Minaker: Dans ce système qui est envisagé, est-ce que les terres agricoles seraient imposées avec la possibilité pour l'agriculteur de demander une ristourne?

M. Wood: C'est bien cela mais, si j'ai bonne mémoire, on a prévu un régime spécial pour faire une distinction entre le transfert d'une terre agricole à un autre agriculteur et le transfert à un membre de la famille. Mais vous avez raison. Ce cas serait soumis aux mêmes exigences de délivrance d'un certificat, aux mêmes règles. Il s'agit d'abord de payer la taxe ensuite d'en obtenir le remboursement.

[Text]

[Translation]

• 2050

Mr. Weyman: I would just like to pick up on your last point on this 4-4 about the special scheme in Europe where for example there is a tax on purchases, no refund on the input side but the business collects the tax at a specified percentage on the sales and then keeps the amount collected instead. I was just thinking in the context of the discussion we had earlier on small business whether this might be a way that small business could be accommodated. Does that work? You say you would have a specified percentage. Is that a lower percentage tax rate?

Mr. Wood: A lower percentage, yes, to reflect that so that the net—

Mr. Weyman: Their customers then are buying generally at 8%. If they buy from small business they might pay 4%. Does that work as a system?

The Vice-Chairman: It gives that particular vendor an advantage over his neighbour.

Mr. Wood: It is an averaging.

Mr. Weyman: You could do it in the value-added tax system where the customer of the small business identifies the amount of tax, whatever percentage it is. Meanwhile, the small business is looked after because it is made whole by just collecting tax at a lower rate and keeping it. Would that work for small business?

Mr. Wood: Sure. It is another option to put on the table on that other list.

The Vice-Chairman: We are happy to welcome our chairman to the meeting and let him know that we will keep the meeting going for a minute or two so that he can participate.

Mr. Blenkarn: I will sit out here for. . .

The Vice-Chairman: Okay. Just until 10 p.m.

Mr. Warner: Is this an award that you have received, Mr. Chairman?

Mr. Blenkarn: "Presented in appreciation to Donald Blenkarn, January 26, Federal P.C. Women's Caucus of Ottawa".

The Vice-Chairman: We are looking at non-profit organizations, page 4-5 in the notes, just touching them. We have been talking about farmers.

Mr. Wood: In the charities, non-profit organizations, and government bodies collectively there are many, many issues. In the paper itself the words are carefully chosen:

M. Weyman: J'aimerais simplement prendre le dernier point que vous avez soulevé à la page 4-4 concernant le régime spécial en vigueur en Europe, dans le cas, par exemple, d'une taxe à l'achat, il n'y a pas de remboursement du côté de l'achat des facteurs de production, mais l'entreprise perçoit un certain pourcentage sur le prix de ses ventes et puis après garde ce montant au lieu de le reverser. S'agissant de la discussion que nous avons eue plus tôt au sujet de la petite entreprise, je me demande si cela ne constituerait pas le moyen de répondre aux besoins précis de la petite entreprise. Ce système fonctionne-t-il? Vous avez parlé d'un pourcentage précis. Est-ce un pourcentage inférieur au taux d'imposition?

M. Wood: Oui, un pourcentage plus faible qui tient compte du fait que le prix net. . .

M. Weyman: Leur clientèle est donc en général astreinte à une taxe de vente de 8 p. 100 et lorsqu'ils se fournissent auprès d'une petite entreprise, ils ne payent parfois que 4 p. 100. Ce système donne-t-il de bons résultats?

Le vice-président: Cela procure au vendeur un avantage par rapport à son concurrent.

M. Wood: Il s'agit de l'établissement d'une moyenne.

M. Weyman: Cela peut se faire dans le système de la taxe à la valeur ajoutée, où le client d'une petite entreprise sait tout à fait quel est le montant de la taxe imputée, quel en est le taux. Cela représente un avantage pour la petite entreprise qui est compensée par la perception d'une taxe, certes à moindre taux, mais qui peut en conserver le produit. Cela pourrait-il être utilisé pour les petites entreprises?

M. Wood: Bien sûr. Cela constitue une autre solution dont on pourrait discuter.

Le vice-président: Nous avons le plaisir de souhaiter à notre président la bienvenue aujourd'hui et j'aimerais poursuivre la réunion pendant quelques instants afin de lui permettre d'y participer.

M. Blenkarn: Je prends mon siège. . .

Le vice-président: Entendu. Nous irons jusqu'à 22 heures.

M. Warner: Monsieur le président, vous a-t-on décerné une récompense?

M. Blenkarn: «En hommage à M. Donald Blenkarn, le 26 janvier, de la part du groupe des femmes députées fédérales du Parti conservateur à Ottawa».

Le vice-président: Nous avons examiné le cas des organismes à but non lucratif, à la page 4-5 des notes qui s'y réfèrent. Nous avons également examiné la situation des agriculteurs.

M. Wood: Dans les organismes de charité, dans les organismes à but non lucratif, ainsi d'ailleurs que dans l'ensemble des organismes gouvernementaux, on constate

[Texte]

The purpose of this section is to set out one approach to the taxation of this sector in order to facilitate discussion.

So there are many approaches to this sector. Now what is suggested here for discussion. . . Let us go back—just a couple of rules to start off with. When we are talking about non-profit organizations, specifically excluded from this definition would be organizations established or operated primarily to provide dining, recreational, or sporting facilities for their members. So even though a golf club or a dining club or a recreational facility is non-profit for income tax purposes, nonetheless it would be in the system for MSST purposes, so it would charge tax on any charges to members, annual fees, dinners, the bar charges and so on and it would get a credit for all of its inputs just like any other business.

Now to the extent that they provide dining facilities, that is not dissimilar to what happens for provincial sales tax purposes. In most of the provinces when one went into a private club and bought something from the bar or from the dining facilities there would be provincial sales tax on it. So under this proposal there would also be a MSST on those kind of charges. So that is the first rule.

The Vice-Chairman: I guess I am a little bit puzzled now when we start talking about the golf course. Are we implying here that there is a new tax that has not been charged to golf clubs that will be under the new rules here?

Mr. Wood: Yes.

Mr. Blenkarn: They are going to charge a tax on your annual fees—

Mr. Wood: Your green fees, your bar bills.

Mr. Blenkarn: —and presumably your membership.

Mr. Wood: Yes.

The Vice-Chairman: Well, that is what I heard him say.

Mr. Blenkarn: That does not make you very happy, does it?

The Vice-Chairman: No. I was digesting very slowly here for a minute.

[Traduction]

un certain nombre de problèmes. Dans le document, les dispositions applicables sont rédigées avec une très grande précaution:

Cette section a pour objet d'exposer une approche de la taxation de ce secteur afin de faciliter les débats.

Pour les modes d'approche, il n'y a que l'embarras du choix. Nous proposons donc ici, aux fins de la discussion. . . Pouvons-nous revenir un petit peu en arrière—il s'agirait simplement de cerner une ou deux règles au départ. Lorsqu'il s'agit d'organismes à but non lucratif, on exclut de cette définition les organismes dont l'activité principale consiste à offrir à leurs membres des événements gastronomiques, sportifs ou autres formes de récréation. Donc, même si, du point de vue fiscal, un club de golf ou de gastronomie ou un établissement récréatif est un organisme à but non lucratif, aux fins de la taxe de vente des fabricants ou des fournisseurs, ces organismes doivent percevoir une taxe sur les sommes qui leur sont versées par les membres, qu'il s'agisse des cotisations annuelles, des cotisations spéciales à l'occasion des repas, des notes de bar ou autres frais prévus, et ces organismes obtiendront une ristourne, comme toute autre entreprise, pour les taxes payées à leur propres fournisseurs.

Dans la mesure où de tels organismes offrent des installations de gastronomie, la situation ainsi créée ne serait pas très différente de ce qui se passe pour la taxe de vente provinciale. Dans la plupart des provinces, lorsque quelqu'un prend un dîner ou une consommation dans un club privé, il paie sur la somme une taxe de vente provinciale. Donc, en vertu de la solution envisagée, toutes ces dépenses seraient soumises à une taxe de vente des fabricants ou des fournisseurs. Cela serait la règle de départ.

Le vice-président: Lorsqu'on commence à parler des terrains de golf, je ne comprends plus très bien. S'agit-il de faire payer au club de golf une nouvelle taxe que les clubs ne payaient pas avant et qu'ils devront payer à l'avenir?

M. Wood: C'est bien cela.

M. Blenkarn: On va donc nous faire payer une taxe sur vos cotisations annuelles. . .

M. Wood: Par exemple, vos notes de bar, vos frais de participation à l'entretien du terrain.

M. Blenkarn: . . . et, j'imagine, vos cotisations de membres.

M. Wood: C'est bien cela.

Le vice-président: Eh bien, c'est effectivement ce que je l'ai entendu dire.

M. Blenkarn: Cela n'a pas l'air de vous réjouir.

Le vice-président: Non. Cela m'a même laissé songeur.

[Text]

[Translation]

• 2055

I guess because they are not in business to make a profit, that is where the challenge could be made. In other words, do we really create these centres of activity, YMCAs?

Mr. Wood: You are right. It is a consumption tax. It is not a tax on profits. There is consumption and they are adding value.

This proposed approach is not as broad as New Zealand's. In New Zealand, as we saw last night, it does not matter if you are in business. If you do anything regularly or continuously, you are in the system. You could run a church bingo every Monday night in New Zealand and you would be in the system on the value added.

Mr. Blenkarn: Would you not be here? Is a professional bingo hall that has the Knights of Columbus in one night a week and has—

Mr. Wood: You are quite right. That is the kind of thing—

Mr. Blenkarn: —a church in another night and that type of thing not going to be caught?

Mr. Wood: Certainly the operator is a profit-making entity and would be caught. Then the question is whether the church, if it were there every Monday night, would be carrying on a business—

Mr. Blenkarn: Would you charge tax on each bingo card?

Mr. Wood: Sure, that is how it would be done. But there are some exemptions here, you will be glad to know, I am sure.

The Vice-Chairman: Here I was going to introduce the whole question of lottos and all the other raffles and everything we sell.

Mr. Hoffman: You get a deduction for your prizes paid out, because the fee a bingo parlour charges does not represent the value added per se.

Miss Nicholson: Everybody's bookkeeping has to improve very greatly, does it not?

The Vice-Chairman: Monstrously.

Mr. Friedman: This is what we sound like a broken record on. You need bookkeeping. You need to keep track of your sales and your purchases. You need to have your head screwed on right to understand this. Every once in a while we come across a crack in the sidewalk, and that may be an advantage to somebody or a

Sans doute parce qu'elle exerce des activités à but non lucratif et c'est là que le bât blesse. Autrement dit, s'agit-il de centres d'activité telles que les YMCA?

M. Wood: Effectivement. Il s'agit d'une taxe à la consommation et non pas d'une taxe sur les biens. Il y a consommation et il y a valeur ajoutée.

Cette approche n'a pas un caractère aussi générale que l'approche qui a été retenue en Nouvelle-Zélande. En Nouvelle-Zélande, ainsi que nous avons pu le constater hier soir, peu importe que vous exerciez une activité commerciale. Tant que vous exercez une activité régulière ou continue, vous relevez du système. En Nouvelle-Zélande si, par exemple, chaque lundi, vous organisez au sein de votre congrégation religieuse, un loto, eh bien vous relevez du système de la taxe à la valeur ajoutée.

M. Blenkarn: N'en est-il pas de même ici? Une salle qui accueille, par exemple, un soir par semaine, le loto des Chevaliers de Colomb, est-elle considérée comme une salle de loto commerciale?

M. Wood: C'est de cela qu'il s'agit. De même. . .

M. Blenkarn: . . . si la salle accueille une autre fois une congrégation religieuse, elle échappe à la taxe?

M. Wood: L'organisateur n'agit sans doute pas à titre bénévole et, lui, relèverait du système. Il s'agit donc de savoir si l'église ou la congrégation religieuse exploite une entreprise si elle organise son loto tous les lundis régulièrement. . .

M. Blenkarn: Songez-vous à percevoir une taxe sur chaque carte de loto?

M. Wood: C'est effectivement comme ça que ce serait organisé. Mais, il y a bien sûr, et cela va vous rassurer, des possibilités d'exemption.

Le vice-président: J'allais justement parler des loteries, des tirages et de toutes les autres choses qui peuvent être offertes.

M. Hoffman: Les prix offerts en récompense ne sont pas imposés car les frais d'inscription au loto ne correspondent pas à une valeur ajoutée.

Mme Nicholson: Cela obligerait tout le monde à tenir une comptabilité beaucoup plus rigoureuse.

Le vice-président: Cela exigera des changements énormes.

M. Friedman: On en vient toujours à cela. Cela exige une comptabilité rigoureuse. Il faut inscrire chaque vente, chaque dépense. Il faut vraiment avoir l'esprit clair pour comprendre cela. De temps à autre on tombe sur une lézarde qui, selon le point de vue de chacun, peut être un avantage ou un inconvénient. Le système ne sera jamais

[Texte]

disadvantage to somebody else. It is not a perfect system. But if you do your thinking in advance, you can ensure that you are on the right side of the rules.

Mr. Wood: Let us just talk about the two overriding exemptions in this sector. There is a so-called "volunteer" exemption. This is a rule that says if all, or substantially all, of the staff involved in the management and operation of an activity are unpaid volunteers, then it would be outside the system. So you might have a hospital shop that was fully managed and manned by unpaid volunteers. In that case it would not have to collect tax on the value added.

Mr. Blenkarn: You mean the store in the Mississauga Hospital that is manned by volunteers would never have to pay tax?

Mr. Warner: Your first exception says those people would be taxed: sale of goods in a retail store.

Mr. Wood: I am sorry. Yes. But it depends on whether it is a charity or not.

Mr. Blenkarn: Well, it would be a charity. It is a hospital. Are hospitals not charitable any more?

Mr. Friedman: No, they are not. They are a hospital; they are a health institution.

Mr. Warner: But the ladies' auxiliary that runs the shop is a charitable institution, possibly with a number. Where do they fit?

Mr. Blenkarn: Well, the hospital foundation for sure has a number, I can tell you that; and the hospital foundation runs the shop and the shop is run by volunteers. Now you are telling me that will not pay tax?

Mr. Wood: Yes, I am. I said earlier the government has said this is set out as an approach to taxation of this sector to facilitate discussion. I am saying the proposed rule says if it is all volunteers, then it is out.

Miss Nicholson: Even if their sales are over \$5,000.

Mr. Wood: That is right, even if their sales are over \$5,000. The other way of getting out, even if you have paid staff, is if the sales are less than \$5,000 per year. But in all other cases sales of goods through a retail store would be taxable.

Mr. Blenkarn: I have problems with that.

[Traduction]

parfait mais, si vous réfléchissez bien à l'avance, vous pouvez mettre les règles de votre côté.

M. Wood: Pouvons-nous aborder les deux principales exemptions prévues dans le domaine qui nous intéresse. Il s'agit, d'abord, de l'exemption «bénévole». Selon cette règle, si l'ensemble du personnel, ou la grande majorité du personnel qui participe à la gestion et à l'organisation d'une activité donnée sont des bénévoles, eh bien l'organisme ne sera pas soumis au versement d'une taxe. Il peut s'agir d'un magasin qui, dans un hôpital, est entièrement géré par des bénévoles. Dans ce cas, le magasin n'aura pas à percevoir une taxe sur la valeur ajoutée.

M. Blenkarn: Vous voulez dire donc que le magasin situé dans l'hôpital de Mississauga et géré par des bénévoles n'aurait pas à payer de taxe?

M. Warner: D'après la première exception, il y aurait imposition car il s'agit, en l'espèce, de vente au détail.

M. Wood: Désolé, oui, effectivement, mais cela va dépendre selon qu'il s'agit ou non d'un organisme charitable ou de bienfaisance.

M. Blenkarn: Eh bien, sans doute s'agit-il d'une oeuvre de bienfaisance. Après tout, il s'agit d'un hôpital. Les hôpitaux ne sont-ils plus des organismes de bienfaisance?

M. Friedman: Non, justement. Ce sont des hôpitaux, c'est à dire des organismes de santé.

M. Warner: Mais le service des femmes bénévoles qui assurent la gestion du magasin est un organisme de bienfaisance, peut-être même un organisme inscrit. Quel est leur statut?

M. Blenkarn: Eh bien, il est clair que la fondation de l'hôpital est un organisme charitable inscrit, ça je peux vous le certifier: et c'est de la fondation de l'hôpital que dépend le magasin, magasin géré par des bénévoles. Vous m'assurez donc que ce magasin ne sera pas astreint au versement d'une taxe?

M. Wood: Je vous l'assure. J'ai dit plutôt que, comme l'a dit le gouvernement, on a retenu cette démarche afin de faciliter l'examen des problèmes que pose la fiscalité dans ce domaine. D'après moi, la règle envisagée exclut du système fiscal les organismes entièrement gérés par des bénévoles.

Mme Nicholson: Même si le chiffre de leurs ventes dépasse 5,000\$?

M. Wood: C'est cela, même si le montant de leurs ventes dépasse 5,000\$. Une autre manière d'éviter les taxes, même dans les cas où il y a un personnel rémunéré, c'est lorsque le montant des ventes n'atteint pas 5,000\$ par an. Mais, dans tous les autres cas où les biens sont vendus au détail dans un magasin, les ventes sont soumises au paiement d'une taxe.

M. Blenkarn: Cela ne me paraît pas satisfaisant.

[Text]

[Translation]

• 2100

The Vice-Chairman: The product or the service they render is taxable, but on the MSST they have the recovery on the—

Mr. Wood: That is true. If they were in the system, then they would have the recovery just like any business would; however, if they were exempt, and because they are volunteers, then the tax would be locked in on the purchase price. Okay, so say it is a hospital shop, all volunteers, and they go out and buy goods and they pay tax.

The Vice-Chairman: Yes.

Mr. Wood: That would be the end of the story.

The Vice-Chairman: They cannot charge that tax off to anybody?

Mr. Wood: No. They would try and build it into the price, of course, and probably would, but there is no tax on that final value added.

Mr. Blenkarn: What is this broader exemption on admissions? What are you talking about there?

Mr. Wood: Okay, I will just run down these very quickly. Subject to this volunteer exemption and the \$5,000 threshold we talked about, if the sale of goods is through a retail outlet, then the sale of goods is taxable. For instance, a university bookstore, a museum or a souvenir gift shop, other similar retail stores—

Mr. Blenkarn: All right, suppose we are running a concert with the Mississauga Drama Society. We are selling tickets. If we sell tickets in excess of \$5,000, are we going to have to pay tax on those tickets?

Mr. Wood: You might, under this proposal, because they are saying admissions to a professional theatrical, musical or other such performance, film presentation, slide show, horse race, or professional athletic event.

Mr. Blenkarn: Amateur.

The Vice-Chairman: Always professional, you said.

Mr. Wood: Well, yes. Yes, they were professional athletic events, implying that amateurs would be exempt, but admissions to such events would be taxable only where the events are staged in a place designed, built, or used primarily for the staging of such events.

Le vice-président: Le produit vendu ou le service rendu est imposable. Mais s'agissant de la taxe de vente des fabricants ou des fournisseurs, ils peuvent en obtenir le remboursement au moyen de. . .

M. Wood: C'est vrai. S'ils relevaient du système, eh bien ils pourrait récupérer la taxe payée comme tout autre organisme commercial; cependant, s'ils font l'objet d'une exemption car l'organisme est géré entièrement par des bénévoles, eh bien la taxe payée sur les fournitures est définitivement acquise au fisc. Admettons qu'il s'agit d'un magasin installé dans un hôpital et géré d'une façon bénévole, eh bien tout ce qui est acheté par et pour ce magasin est néanmoins soumis à la taxe de vente.

Le vice-président: C'est effectivement vrai.

M. Wood: Un point c'est tout.

Le vice-président: Et ce magasin ne peut pas se faire rembourser cette taxe.

M. Wood: Non. Le magasin peut essayer d'en répercuter le montant sur l'acheteur, et c'est probablement ce que ce type de magasin ferait, mais les articles vendus dans ce magasin ne sont pas soumis au versement d'une taxe à la valeur ajoutée.

M. Blenkarn: Quelle est la disposition plus large prévoyant l'exemption fiscale applicable aux entrées. De quoi s'agit-il?

M. Wood: Bon, je vais très rapidement passer cela en revue. Sous réserve de l'exemption applicable aux bénévoles et au seuil maximum des 5,000\$ que nous avons évoqués, si la vente s'opère dans le cadre d'un commerce de détail, eh bien la vente des biens est imposable. Par exemple, une librairie dans une université, un magasin de cadeaux ou de souvenirs opérant dans le cadre d'un musée, ou enfin d'autres magasins de vente au détail. . .

M. Blenkarn: Entendu. Supposons que nous organisons un concert dans le cadre de la Société théâtrale de Mississauga. Nous vendons des billets et si nous en vendons pour plus de 5,000\$ allons-nous devoir appliquer une taxe sur les entrées.

M. Wood: D'après le projet envisagé, vous y serez peut-être tenu car on envisage une taxe sur les entrées à tout spectacle professionnel, qu'il s'agisse de représentations théâtrales, musicales, cinématographiques, d'une exposition de diapositives, d'une course de chevaux ou d'une épreuve sportive professionnelle.

M. Blenkarn: Oui, mais qu'en est-il d'une représentation amateur.

Le vice-président: Vous avez dit professionnelle.

M. Wood: Eh bien, oui, il s'agit de manifestations sportives professionnelles, ce qui laisse entendre qu'une manifestation sportive amateur serait exclue du système envisagé et que les entrées à de telles manifestations ne seraient soumises au versement d'une taxe que lorsque la

[Texte]

Mr. Blenkarn: Well, they are all there. They are in high school auditoriums that are designed for the staging of such events.

The Vice-Chairman: No, it is designed to teach kids.

Mr. Friedman: No, it is designed for the kids to get together once a month to rap. I mean, obviously you illustrate what some people are going to do; they will look at these rules and say admissions to museums, parks, zoos, aquariums and recreational complexes are exempt, so therefore that is where we are going to hold these activities.

Mr. Weyman: I think, Mr. Chairman, if you look at the other side of it, though, if a charity puts on a professional entertainment at the Roy Thomson Hall in Toronto, then that will be taxable, as would any other event at the Roy Thomson Hall. The fact that a charity puts it on makes no difference. That is really the point that is made here.

Mr. Blenkarn: What do you mean by certain land sales in this note?

Mr. Wood: Generally we said land rentals and sales by charities are not in the system, but there is an exception here where the charity owns land, sells it to a private individual for the purpose of that individual doing residential construction. Then the charity would be subject to tax on its land sale in that case.

Mr. Blenkarn: Well, are land sales to be taxed?

Mr. Wood: Yes, at the—

Mr. Blenkarn: On what basis?

Mr. Wood: At the session that you—

Mr. Blenkarn: I missed, obviously.

Mr. Wood: —just missed. . . basically, yes. Sales of real estate are subject to tax, and the exception is used residential dwellings and long-term rentals. . .

Mr. Blenkarn: Farms?

Mr. Friedman: It depends on the kind of farm.

Mr. Wood: With the farm sold to another farmer there would be tax collected and—

Mr. Blenkarn: On the land.

[Traduction]

manifestation va se dérouler dans un lieu conçu, construit ou principalement consacré à de telles manifestations.

M. Blenkarn: Mais n'en est-il pas toujours ainsi? Elles vont avoir lieu dans un auditorium d'école secondaire, un auditorium conçu spécialement pour la tenue de pareilles manifestations.

Le vice-président: Non. Ils sont conçus pour l'enseignement.

M. Friedman: Non, ils sont conçus pour permettre aux élèves de se réunir une fois par mois pour pouvoir discuter entre eux. Ce que je veux dire, c'est qu'il est bien évident que ce qui va se passer, c'est que les gens vont se pencher sur ces règles et vont voir que les entrées dans les musées, les parcs, les zoo, les aquariums et les ensembles récréatifs ne sont pas soumises forcément à une taxe et que c'est par conséquent dans de tels lieux qu'ils vont organiser leurs manifestations.

M. Weyman: Monsieur le président, je pense que, si vous envisagez l'autre aspect de la question, c'est-à-dire que, si un organisme devient dans un sens organisme d'un spectacle professionnel à la salle Roy Thomson à Toronto, eh bien les entrées seront soumises au versement d'une taxe comme tout autre événement à la salle Roy Thomson. Le fait que ce soit un organisme de bienfaisance qui organise n'y change rien. En fait, c'est cela que nous cherchons à faire comprendre ici.

M. Blenkarn: Qu'entendez-vous par la vente de certaines terres dans la note que vous avez rédigée?

M. Wood: Mais nous avons dit que d'une manière générale les locations ou ventes foncières opérées par des organismes charitables ne relèvent pas du système et qu'il y a une exception à cela lorsqu'un organisme charitable possède une terre et la vend à un particulier pour la construction d'un immeuble résidentiel ou d'une maison. En pareil cas, l'organisme charitable en cause devra payer une taxe sur la vente de sa terre.

M. Blenkarn: Les ventes foncières vont-elles être taxées donc?

M. Wood: Oui, au. . .

M. Blenkarn: En fonction de quoi?

M. Wood: Lors de la séance que vous. . .

M. Blenkarn: Que, bien sûr, j'ai manquée. . .

M. Wood: Venez de manquer. . . En fait, oui. Les ventes immobilières font l'objet d'une taxe sauf s'il s'agit d'immeubles résidentiels qui ne sont pas neufs et les locations à long terme. . .

M. Blenkarn: Les fermes également?

M. Friedman: Cela va dépendre du type de fermes dont il s'agit.

M. Wood: Si une ferme est vendue à un autre agriculteur, eh bien la transaction fait l'objet d'une taxe et. . .

M. Blenkarn: Sur la vente du terrain?

[Text]

Mr. Wood: —then a deduction. . . and the land and the buildings and fixtures.

Mr. Blenkarn: Would deduct what? Deduct what you paid for them?

Mr. Friedman: No, the tax. Remember, it is the tax. You can only get back—

Mr. Wood: The tax.

Mr. Friedman: —a credit for tax you actually paid, or somebody paid—

Mr. Blenkarn: But then at the outset, anybody who owns property has not paid tax on it.

Mr. Wood: No, you are quite right.

Mr. Blenkarn: Therefore, at the outset of this system, what you are telling us is that the first purchaser of any piece of real estate will have to pay tax without abatement whatsoever. Is that really what you mean?

Mr. Wood: For farm property, that is correct.

Mr. Blenkarn: Well, I mean for lots, vacant lots.

Mr. Wood: For vacant lots, that is true.

Mr. Blenkarn: Stores, apartments, you know?

Mr. Wood: Yes, subject to a credit, if the. . .

• 2105

Mr. Blenkarn: Credit for what, though? The purchaser would have no credits.

Mr. Friedman: Sure they would. If they are a business, it would be like a piece of equipment. They would get a credit.

Mr. Blenkarn: The purchaser would, but not the vendor.

Mr. Friedman: The vendor would just add it on to his sale price. He would say to the purchaser, look, you are a business, you are going to get a credit for this instantly, or within one month to three months, and therefore it should not bother you that we are going to tax the land. Now, if the land is sold to an individual for his own use, then you have a problem.

The Vice-Chairman: Our purpose, as you know, is to identify the problems as we become knowledgeable on the subject, so I will ask the consultants to guide us a little further.

[Translation]

M. Wood: . . . puis d'une déduction. . . Et la terre, et les bâtiments et les installations.

M. Blenkarn: De quelle déduction s'agit-il? De déduire le prix d'achat?

M. Friedman: Non, le montant de la taxe. N'oubliez pas qu'il s'agit de la taxe. Vous ne pouvez obtenir que le remboursement de. . .

M. Wood: De la taxe.

M. Friedman: . . . et une ristourne correspondant à la taxe que vous avez effectivement payée ou que quelqu'un d'autre a payée.

M. Blenkarn: Mais alors, celui qui le possède n'a pas payé de taxe sur ce terrain.

M. Wood: C'est cela, vous avez parfaitement raison.

M. Blenkarn: Donc, dès l'entrée en vigueur de ce système, celui qui achète un terrain va devoir payer, en plus du prix d'achat, une taxe sans possibilité de remise. Est-ce bien vraiment cela que vous voulez dire?

M. Wood: S'agissant d'une terre agricole, c'est parfaitement exact.

M. Blenkarn: Oui, mais qu'en est-il des terrains, des terrains non bâtis.

M. Wood: C'est également vrai pour les terrains non bâtis.

M. Blenkarn: Est-ce que c'est également vrai pour les magasins, les appartements?

M. Wood: Oui, sous réserve de la possibilité d'obtenir une ristourne, si le. . .

M. Blenkarn: Mais une remise ou un remboursement à quel titre? L'acheteur ne pourrait bénéficier d'aucune ristourne.

M. Friedman: Si. S'il s'agit d'une entreprise, ce serait comme un achat d'équipement qui donnerait lieu au versement d'une ristourne ou d'un crédit d'impôt ou d'un remboursement de la taxe payée.

M. Blenkarn: Ça, ça va pour l'acheteur mais non pas pour le vendeur.

M. Friedman: Le vendeur rajouterait cela à son prix de vente. Il dirait à l'acheteur, bon, vous agissez à titre commercial et vous allez immédiatement pouvoir obtenir un crédit au titre de la taxe que vous avez acquittée, immédiatement ou dans un ou trois mois et donc vous n'avez sans doute aucune objection à payer une taxe sur le montant de la transaction foncière. Si, par contre, le terrain est vendu à un particulier qui destine ce terrain à un usage personnel, c'est cela qui crée un problème.

Le vice-président: Notre tâche actuelle est, comme vous le savez, de cerner les problèmes au fur et à mesure que nous avançons dans l'examen de ce domaine et donc je vais demander aux consultants de nous éclairer un peu plus.

[Texte]

Mr. Friedman: One last point. Charities right now receive very little in the way of federal sales tax favours. They are not considered anything special, and therefore they are not losing. Right now they would pay federal sales tax on all taxable goods; there are no exemptions for charities.

The Vice-Chairman: There are no exemptions as there used to be.

Mr. Friedman: No. There are certain exemptions for certain religious articles and certain war memorials, but other than that, they pay tax.

The Vice-Chairman: The new tax regime is not going to change the fact that they are in the tax system now; they are not getting any breaks out of it.

Mr. Friedman: Exactly.

The Vice-Chairman: Unless we reduce the rate.

Page 4-6 continues with NPOs, non-profit organizations.

Mr. Wood: I will quickly run down a few of the other points. For instance, one is professional associations. That is an interesting question, because professional associations, at first their reaction would be, gee, we would like to be exempt. But as we all know, to be exempt is to be taxed. Many professional associations, where their members are in business, would prefer to be in the system. I think of a doctor paying his fees to the Canadian Medical Association. If there is going to be tax on those fees, then the CMA would get a full deduction for its inputs, and the doctor, to the extent that he paid that fee, which he of course would, would get a deduction.

Actually, a doctor is a bad example because there is some special treatment to the health sector. But take an accountant or a lawyer or an engineer, or somebody where it is likely that a business would have borne that membership fee. Likely that organization would prefer to be in the system and be taxed and get a credit for all of its inputs.

The Vice-Chairman: Anything further on the non-profit organizations?

[Traduction]

M. Friedman: Un dernier point, s'il vous plaît. À l'heure actuelle, les organismes de charité ou de bienfaisance ne bénéficient guère d'avantages sur le plan de la taxe de vente fédérale. Ils ne bénéficient pas d'un statut privilégié et on peut dire que sur ce plan ils n'ont pas grand-chose à perdre. À l'heure actuelle, ils nous acquittent la taxe de vente fédérale sur tous les articles dont la vente est soumise au paiement d'une taxe et aucune exemption n'est à l'heure actuelle prévue pour les organismes de charité.

Le vice-président: Il n'y a donc pas d'exemptions comme celles qui existaient auparavant.

M. Friedman: C'est cela. Il continue d'y avoir certaines exemptions applicables à certains objets du culte ou à certains monuments aux victimes de guerre mais, à ces quelques exceptions près, toute vente fait l'objet d'une taxe.

Le vice-président: La nouvelle disposition fiscale ne va rien changer à cet égard étant donné que la quasi-totalité des ventes sont déjà soumises au versement d'une taxe et qu'il n'existe à l'heure actuelle que très peu d'exemptions à cette règle.

M. Friedman: C'est bien cela.

Le vice-président: À moins que l'on ne réduise le taux de la taxe.

La page 4-6 continue à traiter des organismes à but non lucratif.

M. Wood: J'aimerais rapidement passer en revue certains des autres points. Il s'agit, par exemple, des associations professionnelles. Cela représente un cas intéressant car les associations professionnelles ont sans doute comme première réaction de dire qu'elles aimeraient, bien sûr, faire l'objet d'une exemption. Mais, comme nous le savons tous, bénéficier d'une exemption, c'est tout de même avoir à acquitter la taxe. De nombreuses associations professionnelles qui regroupent des gens exerçant des activités commerciales préfèrent relever du système ainsi qu'il en est probablement vrai du médecin qui verse sa cotisation à l'association médicale canadienne. Va-t-on imposer une taxe sur le versement de ces cotisations et alors l'AMC pourrait bénéficier d'une déduction intégrale pour les taxes payées sur ses fournitures et le médecin, dans la mesure où il a versé sa cotisation, pourrait bien sûr obtenir une déduction à ce titre.

En fait, le médecin constitue un mauvais exemple car, dans le domaine de la santé, on constate un certain nombre d'exemptions. Mais prenez le cas d'un comptable, d'un avocat ou d'un ingénieur, ou de quelqu'un où il est vraisemblable que c'est l'employeur qui a versé les montants de la cotisation. Il semblerait qu'une organisation de ce genre préférerait relever du système et être imposée tout en pouvant bénéficier d'une ristourne des taxes versées lors de l'achat des fournitures.

Le vice-président: Avons-nous quelque chose à ajouter au sujet des organismes à but non lucratif?

[Text]

Mr. Wood: Donations would not be subject to tax. Admissions and certain events would be. There is a self-supply bias that we talked about last night for non-profits. To the extent they do it in-house they would be saving. And there can be cascading, because there could be some interaction where the non-profit sector was exempt with the business sector. A business might go down to a university bookstore and buy some books, and if the bookstore was exempt, then there would be cascading or a lock-in of the tax. So it is possible there would still be some cascading. Any recommendation, of course, will have to take into account the additional administrative burden put on non-profits, the business record-keeping side.

There is an exemption also proposed here for the sale of donated goods. For goods donated to a church bazaar there would be no tax on the other side.

Fund-raising events, something like a political dinner, is something close to your hearts, I am sure. The way it is done in the U.K. is the donation element would be excluded and there would be tax only on the cost of the meal, sort of similar to the Canadian income tax rule.

Mr. Warner: The income tax system gives 75% back.

• 2110

Mr. Wood: Moving on to the health sector, obviously there is an overlap. In the health sector you have both private enterprise and non-profit, so these rules do overlap.

The general exemption for non-profits that is proposed here will exempt most of the non-profit organizations. In the private sector, the health services are exempt if insured under the Canada Health Act or under certain social welfare plans.

The exemption also extends to goods supplied in the course of providing those services. A doctor might use band-aids or needles or those sorts of things; the exemption would also extend to the supply of those goods in the course of rendering those services.

This is an exemption; it is not tax free. That means, of course, that tax gets locked in on the inputs. Since it is keyed off the Canada Health Act, only the insured

[Translation]

M. Wood: Les dons ne sont pas assujettis au versement d'une taxe. Les entrées à des spectacles ou à certaines autres manifestations le sont par contre et il existe un certain, si vous voulez, préjugé favorable envers les organismes à but non lucratif qui, si l'on peut dire, pratiquent une sorte d'autarcie. Dans la mesure où ces organismes n'ont pas recours aux services de personnes extérieures à l'organisation, ils parviennent à économiser sur la taxe dont ils seraient normalement redevables. Cela peut entraîner des rebondissements car il peut y avoir interaction entre le secteur à but non lucratif et le secteur commercial. Une entreprise peut, par exemple, aller acheter des livres à la librairie de l'université et, dans la mesure où la librairie n'est pas imposée, eh bien, on assiste à une sorte d'effet pervers dont la possibilité subsiste dans le régime envisagé. Il est bien évident que toute recommandation présentée doit tenir compte du fardeau administratif supplémentaire que les nouvelles dispositions vont imposer aux organismes à but non lucratif, c'est-à-dire la nouvelle nécessité de veiller à la comptabilité.

On a également prévu une exemption à l'égard de la vente de biens qui ont été donnés. La vente de biens donnés à une vente de charité organisée dans le cadre d'une congrégation religieuse n'est pas imposée.

Je sais que vous vous intéressez de près aux manifestations de souscription tel que les dîners politiques. En Grande-Bretagne, les dons ne sont pas imposés et une taxe ne doit être acquittée que sur le coût du repas. Cela ressemble un peu à la règle canadienne en matière d'impôt sur le revenu.

M. Warner: Le fisc rembourse 75 p. 100.

M. Wood: Si l'on passe maintenant au domaine de la santé, on constate bien évidemment qu'il y a chevauchement. Dans le secteur de la santé, il y a à la fois des entreprises commerciales et des organismes à but non lucratif et donc on constate un certain chevauchement des règles applicables.

On propose ici une exemption d'application générale pour les organismes à but non lucratif et la plupart des organismes à but non lucratif sont appelés à en profiter. Dans le secteur privé, les services de santé sont exemptés dans la mesure où ils sont assurés dans le cadre de la Loi canadienne sur la santé ou dans le cadre de certains régimes de Bien-être social.

L'exemption est également applicable aux articles fournis dans le cadre de ces services. Un médecin va utiliser, par exemple, des pansements ou des seringues; l'exemption est également applicable à la fourniture de ces articles dans la mesure où cette fourniture entre dans le cadre de la prestation des services.

Il s'agit d'une exemption et non d'une exonération totale car, bien sûr, la taxe est payée lors de l'achat des fournitures. Il ne s'agit bien sûr que des activités prévues

[Texte]

services under the Canada Health Act are exempt; that is, other services are taxable.

For instance, you will have regional differences. Dentistry in Ontario is not covered by plans so the dentist would be required to collect tax on his selling price, whereas dentistry in Quebec is covered. So you could have different treatment among provinces depending on how they have participated in plans. Or you could have people coming into a dentist's office: one is a welfare patient and therefore that is an exempt transaction; the next patient is a well-off patient and that is taxed; and then a kid comes in covered under a kid's plan the province sponsors and that would be exempt. So obviously the—

Mr. Blenkarn: How really would you do that? That sounds horrendously complicated. Take a nursing home, for example: some patients in the nursing home are sponsored by social welfare plans and some patients in the nursing home pay their own way and some pay their own way partly. What do you do? What kind of a system would that be? It would be impossible to administer, I would think.

Mr. Wood: That is an area where there can be some difficulties. Fortunately, a substantial element is for the long-term accommodation, which is exempt under these proposals. But there could be a tuck shop or something in the home and that might be subject to tax, subject to these rules. I agree that there clearly will be some accounting problems and some record-keeping problems, again introduced by the fact that exemptions are—

Mr. Blenkarn: Would you not, generally speaking, just say all right, we are going to put an exemption on the health system, even those parts of it that perhaps are not under the Canada Health Act?

Mr. Wood: But how far do you go? It is the old—

Mr. Blenkarn: You might go quite a bit farther than that.

Mr. Wood: You might. I do not disagree. But no matter what, you will be involved in drawing some lines.

Mr. Blenkarn: For example, if you are going to start doing after dentists, then what do you do with dentists who do an operation in the hospital?

Mr. Wood: That is an example of something that would be exempt, because that is covered under the OHIP.

[Traduction]

par la Loi canadienne sur la santé, c'est-à-dire que ne bénéficient d'une exemption que les services assurés dans le cadre de la Loi canadienne sur la santé. Les autres services sont donc imposables.

Il existe, par exemple, des différences entre régions. En Ontario, les soins dentaires ne sont pas couverts par des régimes d'assurance-maladie et donc le dentiste doit percevoir la taxe sur le prix de sa prestation alors qu'au Québec, les soins dentaires sont couverts. Il est donc possible que d'une province à l'autre, les dispositions applicables varient selon les différences entre les divers régimes d'assurance-maladie. Prenons l'exemple de la clientèle d'un dentiste. Un de ses patients reçoit des prestations du bien-être social et donc, dans son cas, la transaction n'est pas imposable; le patient d'après est un individu prospère et la transaction est imposable; ensuite, vient un gamin dont les soins dentaires sont couverts dans le cadre d'un régime de soins dentaires financé par la province et cette transaction est donc, elle aussi, non imposable. Il est bien évident que...

M. Blenkarn: Mais alors comment faire? Tout cela semble affreusement compliqué. Prenez l'exemple d'une maison de repos: certains des patients sont subventionnés par un régime de bien-être social alors que d'autres patients payent leur séjour de leur poche et, d'autres encore ne sont tenus que de régler une partie de leurs frais de séjour. Que faire alors? À quel type de système va-t-on aboutir? Un tel système serait impossible à administrer à mon avis.

M. Wood: Il s'agit effectivement d'un domaine où plusieurs types de problèmes peuvent surgir. Heureusement, on a prévu que les séjours prolongés ne seront pas imposables. Mais il pourrait très bien y avoir, dans la maison de repos, un comptoir à provisions qui, d'après les règles que nous avons examinées ici, serait imposé. Je suis d'accord que tout cela va créer des problèmes de comptabilité à cause des exemptions...

M. Blenkarn: De manière générale, ne pensez-vous pas que l'on pourrait mettre hors système, si vous voulez, ou prévoir une exemption générale pour le domaine de la santé même pour les soins qui n'entrent pas dans le cadre de la Loi canadienne sur la santé?

M. Wood: Oui, mais jusqu'où aller? Elle est toujours la même...

M. Blenkarn: On pourrait quand même aller plus loin que cela.

M. Wood: On pourrait. Je ne suis pas en désaccord avec vous, mais quelles que soient les dispositions adoptées on n'échappera pas à la nécessité de faire des choix.

M. Blenkarn: Si, par exemple, vous voulez imposer les dentistes, qu'allez-vous faire des dentistes qui font des opérations à l'hôpital?

M. Wood: Il s'agit-là justement d'un exemple de quelque chose qui serait exempté car ça entre dans le cadre du RAMO.

[Text]

Mr. Blenkarn: They see the patient for the operation and then two weeks later they see the patient in their office. Do you...?

Mr. Wood: No, I agree that this is the—

Mr. Friedman: Let us be careful here, because right now everything for the hospital's own use is purchased free of federal sales tax. What you are asking under this system or under this proposal is to ask them to become exempt, and as Peter says, to be exempt is taxable. You are asking them to pay tax.

I refer you again to Mr. Wilson's December 16 address, in which he said municipalities, hospitals, school boards, colleges, and universities should not bear a greater tax burden under the national sales tax than they would under the existing sales tax system.

Mr. Blenkarn: Are they presently sales tax exempt right throughout, on everything?

Mr. Friedman: Yes, everything except goods they would acquire for resale. I have been asked what if a hospital buys televisions and they sell them through the tuck shop? Obviously that would be subject to federal sales tax, but otherwise currently hospitals do not pay federal sales tax on any purchases.

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Mr. Blenkarn: Really what you would have to do, then, is zero-rate the hospital.

Mr. Wood: Yes, that statement says they will not be worse off than they are now. They do pay some federal sales taxes now, the indirect taxes, that are locked in. If you take that on its face, it is saying they would be made whole vis-à-vis the existing system. It does not say—

Mr. Blenkarn: Tell me about the indirect taxes that are locked in.

Mr. Friedman: If you, as an accountant, do consulting services, you would have paid tax on your furniture and on your computer and you somehow bill that into the price to a hospital. There is a small sales tax component. But they would buy building materials, machinery and equipment, normal day-to-day supplies, on a federal sales tax-free basis. There is, I guess, a big concern among hospitals that if you now make them exempt that increases their taxes, which increases provincial subsidies. So in effect you have transferred taxes from the provinces back to the feds.

[Translation]

M. Blenkarn: Ils voient donc le patient au cours de l'opération puis, deux semaines plus tard, ils le retrouvent dans leur cabinet de consultation. Que faites-vous...?

M. Wood: Non, je suis d'accord que cet aspect-là...

M. Friedman: Faisons attention car, à l'heure actuelle tout ce qui est acheté par l'hôpital et destiné à l'usage de celui-ci n'est pas soumis au versement de la taxe de vente fédérale. Selon les propositions envisagées ici, on va prévoir pour les hôpitaux une exemption mais, comme l'a dit Peter, bénéficier d'une exemption cela veut dire qu'on est imposable. Vous leur demandez donc de payer un impôt.

Je vous demande encore une fois de vous reporter au discours prononcé le 16 décembre par M. Wilson, qui a déclaré à cette occasion que les municipalités, les hôpitaux, les commissions scolaires, les collèges et les universités ne devront pas être imposés plus lourdement dans le cadre du régime de la taxe de vente nationale qu'ils le seraient dans le cadre de l'actuel régime de la taxe de vente.

M. Blenkarn: Existe-t-il, à l'heure actuelle, des exemptions systématiques à la taxe de vente?

M. Friedman: Oui, sauf pour les biens achetés pour être revendus. On m'a demandé ce qui se passerait si un hôpital achète des téléviseurs et les revend dans sa boutique? Il est clair que cette vente serait soumise au versement de la taxe de vente fédérale, mais à part cela, à l'heure actuelle, les hôpitaux ne règlent pas la taxe de vente fédérale sur les achats qu'ils effectuent.

M. Blenkarn: Il faudrait donc détaxer l'hôpital.

M. Wood: Oui, cette déclaration dit que la situation des hôpitaux ne changera pas tellement. Ils paient un peu de taxe de vente fédérale à l'heure actuelle, les taxes indirectes déjà incluses. En fin de compte, rien ne changerait tellement par rapport au système existant. On ne dit pas...

M. Blenkarn: Parlez-moi donc un peu des taxes indirectes qui sont incluses?

M. Friedman: Un comptable qui offrirait des services de conseils aurait déjà payé de la taxe à l'achat de ses meubles et de son ordinateur, et il en inclurait le coût dans les honoraires qu'il présenterait à un hôpital. Ses honoraires comportent donc un certain élément de taxe de vente. Mais les hôpitaux achètent des matériaux de construction, de la machinerie et de l'équipement, ainsi que des fournitures d'usage courant, en franchise de taxe de vente fédérale. Les hôpitaux craignent énormément qu'en les exonérant, cela augmente leurs taxes, ce qui fait aussi augmenter les subventions provinciales. On a donc ainsi fait passer des taxes des provinces au gouvernement fédéral.

[Texte]

Mr. Blenkarn: So really what you have to do is zero-rate them. Anybody who presently pays no taxes on their inputs because they are exempt on their inputs really has to be zero-rated, do they not?

Mr. Wood: The exemptions for hospitals are much broader than for municipalities, and municipalities in fact—

Mr. Blenkarn: I appreciate that.

Mr. Wood: You could be right that in the hospitals—

Mr. Blenkarn: You might exempt municipalities; you might zero-rate hospitals.

Mr. Wood: Sure, that is true. You might have a special refund system for these entities, or perhaps the money would be given back to the provincial government to be handed back. All there is is this statement; it could be done in any of those ways.

Mr. Friedman: I can honestly say I was puzzled. Other than being a way of taking certain tax revenues from the hospitals, I was puzzled as to why this was the way the system was conceived by the Department of Finance.

The Vice-Chairman: The statement simply reassures that sector of our society that they are not going to face more taxes.

An hon. member: That is how it is determined, is it?

Mr. Wood: That is right, and there are several ways of approaching it. It may be different for hospitals in the municipalities.

By way of example, in the U.K. they approach it slightly differently. Health services by certain health professionals, generally the traditional professionals in the health sector, are exempt. I forget the list, but there are lots of people who believe they play an important role in the health sector but are subject to tax in the U.K. system. So they have a line drawn that would exclude maybe therapists, for example. They have drawn a line, and there is obviously pressure to move it as the perceptions change as to what a health professional is.

Page 4-8 looks at the education sector. Here there is generally an exemption for educational services by the non-profit sector, and I emphasize non-profit. On the other side of that, if you have the profit sector, then educational services provided by the profit sector are subject to tax.

What are the consequences of that? You might have a nursery school run by the non-profit side that would be exempt. On the other hand, if that nursery school were run by a profit-making organization, there would be tax on the nursery school fees.

[Traduction]

M. Blenkarn: Il faut donc les détaxer. Quiconque ne paie pas de taxes à l'heure actuelle sur ses intrants, parce qu'il sont exonérés, doit être détaxé, n'est-ce pas?

M. Wood: Les exonérations accordées aux hôpitaux sont beaucoup plus large que celles accordées aux municipalités, et les municipalités, en réalité. . .

M. Blenkarn: Je comprends cela.

M. Wood: Vous avez peut-être raison quand vous dites que dans les hôpitaux. . .

M. Blenkarn: On pourra exonérer les municipalités et détaxer les hôpitaux.

M. Wood: Oui, c'est juste. On pourrait instaurer un système de remboursement particulier à l'intention de ces organismes, ou peut-être remettre l'argent au gouvernement provincial pour fins de remboursement. Nous ne disposons que de cette déclaration; on pourrait utiliser n'importe laquelle de ces formules.

M. Friedman: Je vous avouerez franchement que je ne comprenais pas. Si ce n'est pour aller chercher certaines recettes fiscales auprès des hôpitaux, je ne comprenais pas pourquoi le ministère des Finances avait retenu cette formule.

Le vice-président: La déclaration ne fait que rassurer ce secteur qu'il ne paiera pas davantage de taxes.

Une voix: C'est comme cela que l'on procède, n'est-ce pas?

M. Wood: Oui, et il y a plusieurs façons de le faire. L'application peut varier d'un hôpital à l'autre dans les municipalités.

Au Royaume-Uni, par exemple, l'optique est quelque peu différente. Les services de santé dispensés par certains professionnels, en général, les professionnels traditionnels du secteur de la santé, sont exonérés. Il y a bien des gens qui, bien qu'ils considèrent jouer un rôle important dans le secteur de la santé, doivent néanmoins payer des taxes dans le système au Royaume-Uni. Il peut donc arriver, par exemple, que les thérapeutes soient exclus. On a établi un certain nombre de critères, et il y a évidemment des pressions qui s'exercent pour qu'on les modifie avec l'évolution de la définition d'un professionnel de la santé.

A la page 4-8, il est question du secteur de l'éducation. Dans ce domaine, les services d'éducation offerts par des organismes à but non lucratif sont généralement exonérés, et j'insiste sur le fait que cela ne s'applique qu'aux organismes à but non lucratif. Les services d'éducation offerts par des organismes à but lucratif sont assujettis à la taxe.

Cela veut donc dire qu'une garderie qui serait administrée par le service à but non lucratif serait exonérée. Par contre, si elle était administrée par un organisme à but lucratif, les frais qu'elle demande seraient taxables.

[Text]

There are some other examples, such as a university. The student pub sales would be subject to the tax as well as book store sales, cafeteria sales, depending again, of course, on how basic food is defined. Consulting fees that professors might receive would be in the system, and you may have universities receiving royalties. Should they be in the system or not as they take the technology or their ideas, their research, to a practical level and to the marketplace?

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Mr. Friedman: It strikes me that large educational institutions may resell computer time for profit, and then you get into some real apportionment problems as to whether the computer system is creditable and how you apportion what is creditable and what is not.

Mr. Hoffman: This has happened in the United Kingdom where for the most part financial services are exempt. Not all, but most spreads certainly are exempt.

The Vice-Chairman: Then could we not go into laboratories where we are encouraging industry to use university laboratories to do on-site research, staff and equipment, facilities, services, and producing what will be eventually to the benefit of the profit-making corporation?

Mr. Hoffman: It might be easy in certain circumstances where you can say this beaker was purchased clearly for a taxable activity, but what about that computer where it went into joint use? It means Revenue Canada would have to send people out to each and every institution under these circumstances, as the Inland Revenue does for financial institutions in the United Kingdom, and sit down and work out rules or come to an administrative solution as to what tax you get back.

The Vice-Chairman: When is a research student, working with the professor who is on a grant with a company, learning and when is he earning? It just strikes me it would be an incredible thing to look into that laboratory and decide that he has gone past the point where he is learning anything and is now working.

Mr. Friedman: An even finer issue is when is the use for that beaker determined? The first week, is it how you intend to use it, where you used it in the first month, because as a university tax planner I would buy everything for taxable activities, and when a beaker gets dirty just hand it down to the "not for profit" area. I

[Translation]

Il y a encore d'autres exemples de ce genre. Prenons le cas d'une université. Dans le cas d'une université, les ventes à la cantine étudiante seraient taxables. Il en serait aussi de même des ventes à la librairie et la cafétéria, selon la définition que l'on aura donnée aux aliments essentiels, évidemment. Les honoraires de consultation que pourraient toucher des professeurs seraient aussi visés par le système, et il pourrait aussi arriver que des universités reçoivent des redevances. Faudrait-il prévoir aussi le cas de ces redevances dans le système ou non, lorsque les universités décident de commercialiser leur technologie, leurs idées ou leurs recherches?

M. Friedman: Je sais que de grandes institutions d'éducation peuvent vendre du temps d'ordinateur à profit. Cela pose de grandes difficultés sur le plan de la répartition. Le système informatique peut-il faire l'objet d'un crédit, et comment déterminer ce qui peut justement faire l'objet d'un crédit et ce qui ne peut pas faire l'objet d'un crédit?

M. Hoffman: Cela s'est justement produit au Royaume-Uni, où les services financiers sont en très grande partie exonérés. Tous les services financiers ne sont pas exonérés, mais la plupart le sont.

Le vice-président: Ne pourrions-nous pas, alors, songer aux laboratoires, puisque nous encourageons l'industrie à utiliser des laboratoires d'université pour faire de la recherche, leur personnel et leur équipement, leurs installations et leurs services, afin de produire quelque chose qu'exploitera éventuellement la société à but lucratif?

M. Hoffman: Ce serait peut-être possible dans certains cas où l'on pourrait déterminer que tel ou tel vase a clairement été acheté pour être utilisé dans le cadre d'une activité taxable, mais que faire au sujet de l'ordinateur dont on se sera servi à des fins lucratives et à des fins non lucratives? Dans de tels cas, cela signifie que Revenu Canada devrait envoyer des vérificateurs dans chacune des institutions concernées, comme on le fait au Royaume-Uni pour les institutions financières, et définir des règles ou arriver à une solution administrative à propos des taxes à percevoir.

Le vice-président: Où se situe la ligne de démarcation entre le moment où un étudiant en recherche, qui travaille avec le professeur qui a reçu une subvention d'une société, apprend et le moment où il gagne un revenu? Ce serait un véritable cauchemar que d'essayer de déterminer à partir de quel moment il n'est plus en apprentissage et à partir de quel moment il faut considérer ses activités comme du travail.

M. Friedman: Et il est encore plus délicat de décider à quel moment l'usage de ce vase est déterminé. Dès la première semaine? Est-ce l'usage qu'on a l'intention d'en faire qui en décide? Est-ce l'endroit où l'on s'en est servi pendant le premier mois? Parce que, si j'étais chargé de la planification fiscale de l'université, tout ce que

[Texte]

mean, this is back to the forklift that you buy for the manufacturing activities because right now you have a federal sales tax exemption, and once the year or five years has gone by you transfer it into a non-exempt situation.

You could do the same thing with a computer. How long do you have to lease that computer out? Remember you get the tax back right up front. On day one you get the tax back. So if you lease it out to a corporation for a year or six months or whatever, have you satisfied the condition? Those are the situations you get into with dual use type of equipment.

The Vice-Chairman: And with obsolescence as fast as it is on computers.

Mr. Blenkarn: So how do you handle a thing like that? How do other people handle that problem?

Mr. Hoffman: I do not know. In the U.K. financial institutions they do not handle it very well. I do not mean to be frank, but—

Mr. Blenkarn: That sounds to me like one hell of a big loophole. Because what happens is you treat the thing you buy for the taxable purpose, and then you never use it for the taxable purpose.

The Vice-Chairman: The answer to Mr. Blenkarn's question depends on who you talk to, the financial institution or Inland Revenue. But from my discussions with people in Europe, it leads to a process where you have to send out teams of Inland Revenue people to these institutions year over year on a negotiation process.

Mr. Friedman: We are talking now about universities spending upwards of \$20 million on computer systems now and 8% adds up very quickly. If you can establish a period when it is used for a taxable activity, then you basically have saved yourself a nice piece of change.

Mr. Wood: In this whole area, the non-profit area, education sector included, there are a lot of problems in Europe and would be here as well in dealing with government grants. What has happened in the U.K., for instance, you know, the building might have been totally government-funded, but the organization then charges nominal admission at the door so it is in the system and has some sales and then asks for all the money back on its capital additions, even though it is just charging a nominal amount at the door. There are a lot of schemes which presumably the Finance Department would be looking at in applying the rules to this sector to ensure it does not happen. This is also true in universities.

[Traduction]

j'achèterais serait pour des activités taxables, et lorsqu'un vase deviendrait usagé, je le ferais passer du côté des activités à but non lucratif. C'est un peu comme le chariot élévateur à fourche que l'on achète à des fins de fabrication, puisqu'à l'heure actuelle, cet achat est exonéré de la taxe de vente fédérale, et que l'on fait ensuite passer dans la catégorie du matériel non exonéré, une fois l'année où les cinq années écoulées.

On pourrait procéder de la même façon pour un ordinateur. Combien de temps faut-il louer cet ordinateur? Il ne faut pas oublier que le remboursement de la taxe est immédiat. Dès que l'ordinateur est acheté, la taxe est remboursée. Si l'ordinateur est ensuite loué à une société pendant un an ou six mois, a-t-on satisfait à la règle? C'est le genre de situation qui se présente dans le cas de l'utilisation mixte de pièces d'équipement.

Le vice-président: Et quand on sait avec quelle rapidité les ordinateurs deviennent désuets. . .

M. Blenkarn: Que fait-on dans de tels cas? Que fait-on ailleurs?

M. Hoffman: Je ne sais pas. Au Royaume-Uni, pour les institutions financières, je sais que ce n'est pas très brillant. Je ne veux pas trop m'avancer, mais. . .

M. Blenkarn: Nous avons là toute une échappatoire, à mon avis. Qu'arrive-t-il si l'on déclare la chose que l'on achète à des fins taxables et qu'on ne l'utilise jamais à de telles fins?

Le vice-président: La réponse à la question de M. Blenkarn diffère selon que l'on s'adresse à l'institution financière ou au fisc. Mais des discussions que j'ai eues avec des Européens, il se dégage que ce mode de fonctionnement oblige à envoyer des équipes de vérificateurs chez les institutions, année après année, afin de négocier.

M. Friedman: Nous parlons d'universités qui dépensent jusqu'à 20 millions de dollars pour acheter des systèmes informatiques à l'heure actuelle, et 8 p. 100 de taxe, ça finit par faire un joli montant. Si l'on parvenait à déterminer pendant combien de temps un ordinateur est utilisé à des fins taxables, ce serait déjà fort appréciable.

M. Wood: Il y a beaucoup de problèmes en Europe dans le domaine des activités à but non lucratif, y compris le secteur de l'éducation, et ce serait la même chose ici à-propos des subventions gouvernementales. Au Royaume-Uni, par exemple, l'immeuble peut avoir été totalement construit à l'aide de subventions gouvernementales, mais l'organisme demande un prix d'admission minime, ce qui lui permet de déclarer des ventes, et demande le remboursement de toutes les sommes qu'il a versées en fonction de ses investissements en immobilisations, même s'il ne demande qu'un prix d'admission minime à l'entrée. Il y a probablement beaucoup de possibilités que le ministère des Finances voudrait examiner en fonction de l'application des règles à ce secteur afin de s'assurer que cela ne puisse se produire. C'est aussi vrai pour les universités.

[Text]

[Translation]

• 2125

The Vice-Chairman: There is no relationship or limit between tax recovery and gross revenue. As long as it is a legitimate sale per dollar, you can reclaim a million dollars.

Mr. Wood: As Andy said, in the U.K. there were some discretionary rules they have had to introduce. If you did not have some sales at the end, then they can come and take back the money you got wrongly. There are obviously some avoidance rules needed here.

Mr. Friedman: It is back to boundary testing and back to employing tax practitioners. I guess your role is to make us unemployed.

The Vice-Chairman: So far you are not helping us at all.

Mr. Blenkarn: They are making sure you keep your job.

Mr. Weyman: We are all for exemptions.

The Vice-Chairman: We will turn over to everybody's favourite subject on page 4-9—crown corporations and governments.

Mr. Wood: We mentioned this briefly last night, so let us just go through this one more time. The suggestion in the paper is that governments would be taxable on any commercial activity involving the supply of property or service of a type that is generally supplied by commercial business. Here we seem to be talking about things where they are in competition with the commercial sector. For greater certainty, a number of commercial supplies of government organizations could explicitly be identified so as to reduce competitive inequities, to minimize the compliance burden for business users and so on. This is the general statement in the paper.

As we said yesterday, there are some obvious constitutional difficulties in having one level of government taxing another. Instead of facing those, by agreement under the existing taxes, all of the provinces except for two have agreed to pay the federal government's taxes, and the federal government has agreed to pay the provincial government's taxes.

Mr. Blenkarn: Which are the two? Alberta and—

Mr. Wood: Alberta and Saskatchewan. There is some precedent for federal provincial agreement in this area.

Mr. Blenkarn: Two more have joined in the last relatively—

Le vice-président: Il n'y a pas de limite ou de rapport entre la récupération de la taxe et le revenu brut. Lorsque ce sont des ventes en bonne et due forme, on peut réclamer un million de dollars.

M. Wood: Comme le disait Andy, on a dû introduire un certain nombre de règles discrétionnaires au Royaume-Uni quand il n'y a pas eu de ventes, en fin de compte, on peut revenir en arrière et récupérer les sommes qui n'auraient pas dû être versées. Cela signifie qu'il faut évidemment un certain nombre de règles d'évitement dans ce cas.

M. Friedman: Cela nous ramène à la question de la vérification des cas limites et de l'utilisation de spécialistes en matière de fiscalité. Je suppose que vous cherchez à vous passer de nos services.

Le vice-président: Vous ne nous avez pas du tout aidés jusqu'à maintenant.

M. Blenkarn: On veut faire en sorte que vous conserviez votre emploi.

M. Weyman: Nous sommes tout à fait en faveur des exonérations.

Le vice-président: Nous allons maintenant passer au sujet favori d'un peu tout le monde, à la page 4-9—aux sociétés d'État et gouvernements.

M. Wood: Nous en avons parlé brièvement hier soir; revoyons donc un peu la chose encore une fois. Dans le Livre blanc, on dit que les gouvernements seraient taxables pour toute activité commerciale dans le cadre de laquelle ils offriraient des biens ou des services analogues à ceux qui sont généralement offerts par une entreprise commerciale. Il semble ici s'agir de biens ou de services qui entrent en concurrence avec le secteur commercial. Pour plus de sûreté, on pourrait dresser une liste précise de nombreux biens ou services commerciaux que peuvent offrir des organismes gouvernementaux, afin de réduire les injustices sur le plan de la concurrence et de minimiser le fardeau de l'application des règles à l'intention des intéressés. C'est la déclaration générale dans le Livre blanc.

Comme nous le disions hier, qu'un gouvernement impose des taxes à un autre présente évidemment un certain nombre de difficultés d'ordre constitutionnel. Pour éviter ces difficultés, toutes les provinces, à l'exception de deux, acceptent de payer les taxes du gouvernement fédéral, et le gouvernement fédéral accepte de payer les taxes imposées par les gouvernements provinciaux.

M. Blenkarn: Quelles sont ces deux provinces? L'Alberta et...

M. Wood: L'Alberta et la Saskatchewan. Il y a déjà un précédent à l'égard d'une telle entente fédérale-provinciale dans ce domaine.

M. Blenkarn: Deux autres provinces ont accepté dernièrement...

[Texte]

Mr. Wood: I think it started off with about four, and in recent years—

Mr. Blenkarn: When did British Columbia sign up?

Mr. Wood: Were they the last one to sign up? Does anyone recall?

Mr. Blenkarn: British Columbia and Manitoba must have just signed up.

Mr. Friedman: Yes, because it used to be all the provinces—

Mr. Blenkarn: Everything west of the Lakehead refused to play ball.

Mr. Friedman: That used to be easy to remember.

Mr. Blenkarn: That is right.

Mr. Wood: We talked last night about why the provinces and Crown corporations might want to participate. We said that to a great extent, and in some more than others, they will be interacting with the business users who will want a credit and will not want the tax locked in. If they were exempt or outside the system, then the business user would not get a deduction and therefore there would be some cascading, which can be eliminated only if they participate.

On top of that, there are a number of Crown corporations with substantial export sales. Again, it would be in their interest to participate, since only by their participation can they ensure that they get back every last tax dollar they paid in their inputs.

Now, what are some examples of commercial sales? There really are not a lot in the paper. Possibly when the Mint sells coins or when the Post Office provides services, these might be considered commercial sales. Provision of hydro and liquor board sales might also be commercial sales.

There are some grey areas as to what a commercial supply is. For instance—

Mr. Blenkarn: How would you charge a tax on a Mint sale of coins to the Bank of Canada? We produce coppers by the millions. What do you do, charge a—

Mr. Wood: Let us see. How does the representative of he—

Mr. Blenkarn: The coinage is minted to a large extent. While there are mint sets and that kind of thing, the coinage is minted to supply the money of the country. How do you charge tax on the money?

Mr. Friedman: Yes, but the Mint says—

[Traduction]

M. Wood: Oui, au début, il y avait quatre provinces, et dans les quelques dernières années. . .

M. Blenkarn: Quand la Colombie-Britannique a-t-elle donné son accord?

M. Wood: A-t-elle été la dernière province à le faire? Est-ce que quelqu'un s'en souvient?

M. Blenkarn: La Colombie Britannique et le Manitoba viennent tout juste de donner leur accord.

M. Friedman: Oui, parce que auparavant, c'était toutes les provinces. . .

M. Blenkarn: Toutes les provinces à l'ouest des Grands lacs qui refusaient.

M. Friedman: Oui, c'était facile à retenir.

M. Blenkarn: C'est juste.

M. Wood: Hier soir, nous avons parlé de ce qui inciterait les provinces et les sociétés d'État à collaborer. Nous avons dit qu'elles transigeraient beaucoup, et certaines plus que d'autres, avec les utilisateurs commerciaux, qui voudront obtenir un crédit et qui ne voudront pas que la taxe soit incluse. Si les provinces étaient exonérées ou hors du système, l'utilisateur commercial ne pourrait pas obtenir de déduction, ce qui créerait, par conséquent, un certain mouvement d'entraînement qui ne pourrait être éliminé que si elles participaient.

Il y a en outre un certain nombre de sociétés d'État dont les ventes à l'exportation sont considérables. Elles ont elles aussi tout intérêt à participer, puisque c'est le seul moyen dont elles disposent pour récupérer toutes les taxes qu'elles ont payées sur leurs intrants.

Qu'est-ce qu'une vente commerciale? On n'en énumère pas tellement dans le Livre blanc. Quand la Monnaie royale vend des pièces, ou lorsque la Société canadienne des postes offre des services, on pourrait dire que ce sont-là des ventes commerciales. Ce pourrait être aussi le cas des ventes d'électricité et des ventes d'alcool.

Le service à caractère commercial est encore mal défini. Il y a encore certaines zones grises. Par exemple. . .

M. Blenkarn: Comment taxeriez-vous la vente de pièces de monnaie de la part de la Monnaie royale à la Banque du Canada? Nous produisons des milliers de pièces de 1c. Que faites-vous dans un tel cas? Vous imposez la taxe. . .

M. Wood: Voyons. Comment le représentant de la. . .

M. Blenkarn: On frappe énormément de pièces de monnaie. Bien que l'on vende des jeux de pièces, la monnaie est frappée pour le pays. Comment prélevez-vous de la taxe sur l'argent?

M. Friedman: Oui, mais à la Monnaie royale, on dit que. . .

[Text]

[Translation]

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Mr. Blenkarn: If you do, why do you not charge tax on the sale by British American Bank Note Inc.?

Mr. Friedman: I would suggest that the example of mint sales is the difference between how much the quarter, nickel, or fifty cents. . . The difference between \$1.91 and what you actually sell the mint set for may be the value added. You can either get only coins, \$1, 50¢, 25¢, 10¢, 5¢, and 1¢ and pay \$1.91 or they will sell it to you in a set for \$20. The difference would be taxed.

Mr. Blenkarn: Is it the same on stamps? Since the government collects 100 cents on the dollar when it sells a stamp to you, why would you want to confuse the issue by adding a tax on stamps?

The Vice-Chairman: It guarantees \$2 worth of service, which you may or may not get.

Mr. Blenkarn: You do not get any service.

Mr. Wood: On the Post Office side there is a large interaction with the business sector.

Mr. Blenkarn: The real guts of it is that the only thing you might want to start a tax on would be electricity. It is a Crown corporation and electricity is totally owned by the government in the first place. The entire receipt is the government's receipt. How do you put a tax on something if government is the recipient of the entire cookie?

Mr. Friedman: The tax is not on the government; the tax is on the ultimate consumer of the electricity.

Mr. Blenkarn: No, the tax is on the government.

Mr. Friedman: No, it is not.

Mr. Blenkarn: Yes, it is, because the government can raise the price to the point where it cannot sell the hydro any longer. There is nothing to stop the government from raising the price of electricity because of a monopoly on electricity supply. You either buy the electricity at the government's price or you call the price partly tax and partly price if it makes you feel better, but there is an optimizing of price. It is particularly so in liquor sales.

Mr. Weyman: The tax is on the consumer.

Mr. Friedman: If you raise the price of electricity to the manufacturer or the wholesaler without allowing him a credit, you are back into cascading and charging a tax on tax.

Mr. Blenkarn: Why would you not just allow him to deduct it? You can do it if you are going to have tax on it and separate the price between tax and price, but that is not what you are talking about. If you do the subtraction method, you just let them subtract the total purchase. It is the total purchase.

M. Blenkarn: Et si c'est le cas, pourquoi ne pas aussi en prélever sur les ventes de la British American Bank Note Inc.?

M. Friedman: Je dirais que l'exemple des ventes de monnaie est la différence entre le prix des pièces de 25c., de 5c. ou de 50c. . . La différence entre 1,91\$ et le prix du jeu de pièces de monnaie peut être considérée comme une valeur ajoutée. On peut obtenir des pièces de 1\$, 50c., 25c., 10c., 5c. et 1c. pour 1,91\$ ou on peut acheter le jeu complet de la Monnaie royale pour 20\$. La différence serait alors taxée.

M. Blenkarn: Est-ce le même principe pour les timbres? Compte tenu que le gouvernement perçoit 100c. par dollar sur la vente des timbres, pourquoi compliquer les choses en imposant une taxe sur les timbres?

Le vice-président: Il donne pour 2\$ de service, que l'on peut obtenir ou non.

M. Blenkarn: Non, il n'y a aucun service relié à cela.

M. Wood: La Société canadienne des postes fait beaucoup affaire avec le secteur commercial.

M. Blenkarn: En fin de compte, la seule chose que l'on pourrait vouloir taxer, ce serait l'électricité. Il faut tout d'abord dire que l'électricité est un secteur qui appartient complètement au gouvernement et qu'il est administré par une société d'État. Tous les revenus vont au gouvernement. Comment le gouvernement pourrait-il imposer une taxe sur quelque chose dont il est le seul bénéficiaire?

M. Friedman: Ce n'est pas le gouvernement qui paie la taxe sur l'électricité, mais le consommateur.

M. Blenkarn: Non, c'est le gouvernement.

M. Friedman: Non, pas du tout.

M. Blenkarn: Oui, puisque le gouvernement peut augmenter le prix de l'électricité au point de ne plus pouvoir en vendre. Rien ne peut empêcher le gouvernement d'augmenter le prix de l'électricité, car il en a le monopole. On doit acheter son électricité au prix du gouvernement. On peut bien dire, si l'on veut, que le prix de l'électricité comprend une partie de taxe et une partie qui représente les coûts de production, mais on va chercher le meilleur prix possible. Et c'est particulièrement vrai dans le cas des ventes d'alcool.

M. Weyman: La taxe est payée par le consommateur.

M. Friedman: En augmentant le prix que doit payer le grossiste pour son électricité, sans lui accorder de crédits, on lui impose de la taxe sur de la taxe.

M. Blenkarn: Pourquoi ne pas tout simplement lui permettre de la déduire? C'est possible si on entend taxer l'électricité et faire la distinction entre la taxe et le prix réel, mais ce n'est pas ce que vous dites. En utilisant la formule de soustraction, on lui permet de déduire l'achat total. C'est bien l'achat total dont il s'agit.

[Texte]

Mr. Friedman: The hydro is not taxing itself; it is getting the money from the consumer.

Mr. Wood: As you pointed out, there are obviously going to be a number of grey areas in applying this commercial tax. A couple of other examples we thought of are some of the user fees the governments might charge such as landing fees at an airport. It is the kind of thing envisaged by a commercial supply. Statistics Canada sells various publications. Is that in competition with the private sector, and should there be a tax on those sales?

In many briefs I am sure you will hear about the self-supply bias. To the extent that you have non-profit or Crown corporations, governments and municipalities out of the system and they are exempt, there is a bias towards doing it yourself instead of going—

Mr. Blenkarn: How do you solve that problem?

Mr. Wood: No one has found a neat solution. The suggestion in the paper is that we should look at the more significant ones and deal with those.

They have dealt with certain areas for federal sales tax, printing for one's own use, for example. The government is subject to tax on its own printing because it competes with the commercial sector. You can have it printed inside or have it done in the commercial sector.

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Mr. Blenkarn: Do you find municipalities paying federal sales tax to the government for the printing they do on their inside printing plant?

Mr. Wood: That is what they do in fact. They have some taxable printing, and they sit there and they have to go through a foreman.

Mr. Blenkarn: Which municipality does this?

Mr. Friedman: The ones visited by Revenue Canada auditors.

Mr. Blenkarn: I have never heard of a municipality being visited by a federal tax auditor yet.

Mr. Wood: I have had a few that are.

Mr. Blenkarn: Where does printing stop and the xerox machine begin?

Mr. Wood: There is a rule.

Mr. Friedman: There is a rule for all of that.

Mr. Wood: It is 20 copies; beyond 20 copies. . .

[Traduction]

M. Friedman: Les compagnies d'électricité ne s'imposent pas de taxe à elles-mêmes, mais au consommateur.

M. Wood: Comme vous le faisiez remarquer, il va sans doute y avoir un certain nombre de zones grises dans l'application de cette taxe commerciale. Il y a aussi un ou deux autres exemples auxquels nous avons songé, entre autres, les frais d'utilisation que les gouvernements pourraient imposer, comme les frais d'atterrissage à un aéroport. C'est le genre de chose qui pourrait être considérée comme un revenu commercial. Statistique Canada vend diverses publications. Statistique Canada fait-il concurrence au secteur privé, et ces ventes devraient-elles être taxées?

Je suis persuadé que vous entendrez beaucoup parler de favoritisme dans le cadre de vos travaux. Dans la mesure où il y a des organismes à but non lucratif ou des sociétés d'État, des gouvernements et des municipalités qui sont à l'extérieur du système et qui sont exonérés, on est tenté d'adopter cette solution. . .

M. Blenkarn: Comment régler ce problème?

M. Wood: Personne n'a encore trouvé de solution vraiment satisfaisante. Dans le Livre blanc, on dit qu'il faudrait examiner les meilleures possibilités et régler ces questions.

On a réglé certains aspects à l'égard de la taxe de vente fédérale, au sujet de l'impression à ses propres fins, par exemple. Le gouvernement doit payer de la taxe sur les documents qu'il imprime parce qu'il entre en concurrence avec le secteur commercial. Il peut les imprimer au moyen de ses propres services ou avoir recours au secteur commercial.

M. Blenkarn: Y a-t-il des municipalités qui paient de la taxe de vente fédérale au gouvernement sur les documents qu'elles impriment au moyen de leur propre équipement?

M. Wood: Oui, c'est ce qu'elles font à l'heure actuelle. Elles ont certaines activités d'impression qui sont taxables, et tout doit passer par un contremaître.

M. Blenkarn: Quelle municipalité fait cela?

M. Friedman: Celles qui reçoivent la visite de vérificateurs de Revenu Canada.

M. Blenkarn: Je n'ai jamais entendu dire qu'une municipalité ait reçu la visite d'un vérificateur.

M. Wood: J'en connais quelques-unes auxquelles c'est arrivé.

M. Blenkarn: Où se situe la limite entre ce qui est considéré comme de l'impression et ce qui est considéré comme de la photocopie?

M. Wood: Il y a une règle à cet égard.

M. Friedman: Oui, il y a une règle.

M. Wood: Qui impose une limite de 20 copies; au-delà de 20 copies. . .

[Text]

Mr. Blenkarn: You know as well as I do that you guys run an accounting office and you have xerox machines. You have a printing plant there. You print tax forms and books and everything else. Do you mean to tell me that you remit federal sales tax on all this printing you do in-house?

Mr. Friedman: We are a small manufacturer under the Excise Tax Act.

Mr. Wood: There is a special rule for lawyers and accountants.

Mr. Friedman: And blacksmiths as well.

Mr. Wood: Yes, and opticians and. . .

The Vice-Chairman: I think we are grasping some truth here.

Mr. Blenkarn: The fact of the matter is, it is not practicable, is it?

Mr. Friedman: You will get Revenue Canada auditors who will look through your xerox sheets to say that you took 800 copies of some form and therefore that is considered manufacturing. It does happen. Clients shake their heads and ask if they cannot find something better to do. They write them the cheque on the spot.

Mr. Blenkarn: When did Peat, Marwick last pay tax?

Mr. Friedman: On what, on our supplies of. . .?

Mr. Blenkarn: No, on your printing operation.

Mr. Weyman: They are exempt.

Mr. Friedman: Professionals generally are exempt under a small manufacturer rule under the Excise Tax Act.

Mr. Wood: They pay tax on the imports right now, on the paper, the ink and so on. The one that we have certainly seen a bit of in the papers is the road-building example. Some of them fairly obviously are computer services. Instead of the government going out and buying computer services and being charged tax on it—

Mr. Blenkarn: Peter, on the road-building, if you allow a municipality to own the bulldozers and use their own people to build the road, you are going to wind up giving the municipal government a great edge over a private contractor who does this.

The Vice-Chairman: You are going to introduce inefficiency too.

Mr. Blenkarn: Now what do you do? It would seem to me you either exempt private contractors or contractors—

Mr. Wood: Or the other way.

Mr. Blenkarn: I mean you have exempted municipalities in a sense, because what you are saying is,

[Translation]

M. Blenkarn: Vous savez aussi bien que moi qu'une firme comptable comme la vôtre possède des photocopieuses. Vous avez un service d'imprimerie. Vous reproduisez des formules d'impôt, des guides et bien d'autres documents. Voulez-vous me faire croire que vous payez de la taxe de vente fédérale sur tous les documents que vous reproduisez?

M. Friedman: Nous sommes considérés comme un petit fabricant en vertu de la Loi sur la taxe d'accise.

M. Wood: Il y a une règle spéciale qui s'applique aux avocats et aux comptables.

M. Friedman: Et aux forgerons aussi.

M. Wood: Oui, et aux opticiens et. . .

Le vice-président: Ah! Je pense que le chat sort un peu du sac.

M. Blenkarn: En réalité, ce n'est pas applicable, n'est-ce pas?

M. Friedman: Il y a des vérificateurs de Revenu Canada qui examinent les rapports de photocopies qui ont été faites et qui disent que les 800 copies qui ont été faites de telle ou telle formule sont considérées comme de la fabrication. Cela arrive parfois. Les clients trouvent cela plutôt bizarre et leur demandent si c'est tout ce qu'ils ont à faire. Ils leur font alors un chèque sans poser d'autre question.

M. Blenkarn: Quand Peat Marwick a-t-elle payé de la taxe la dernière fois?

M. Friedman: Sur quoi? Nos fournitures? . . .

M. Blenkarn: Non, sur vos activités de reproduction.

M. Weyman: Elles sont exonérées.

M. Friedman: De manière générale, les professionnels sont exonérés en vertu d'une règle s'appliquant aux petits fabricants qui découle de la Loi sur la taxe d'accise.

M. Wood: A l'heure actuelle, ils paient de la taxe sur les importations, le papier, l'encre, et le reste. Mais que dire du code dont on a beaucoup parlé dans les journaux dernièrement? Celui de la construction des routes. Il est assez évident que certains de ces services sont en réalité des services informatiques. Le gouvernement, plutôt que d'acheter des services informatiques et de devoir payer de la taxe sur ces services. . .

M. Blenkarn: Peter, dans le cas de la construction des routes, si l'on permettait à une municipalité d'utiliser ses propres bulldozers et ses employés pour construire la route, cela lui donnerait un très grand avantage sur l'entrepreneur privé.

Le vice-président: Et cela entraînerait aussi un certain degré d'inefficacité.

M. Blenkarn: Que faire, alors? Exonérer les entrepreneurs du secteur privé ou. . .

M. Wood: Ou le contraire.

M. Blenkarn: On se trouve à avoir exonéré les municipalités, dans un certain sens, puisque vous dites

[Texte]

the municipality must presumably pay the sales tax on the aggregates, and on the asphalt, and so on.

Mr. Wood: They could go through a formula too and add it up.

Mr. Blenkarn: How are you ever going to do that? I was dealing with the City of Mississauga the other day on this very thing. I had a session with them, and I said we either have to exempt road-builders or we have to have some sort of a formula whereby you pay tax on your own work.

It seems to me though that if the Minister has already said that the municipality will be in no worse position—

Mr. Friedman: On things it does right now.

Mr. Blenkarn: Right.

Mr. Friedman: If they decide to buy out every road-builder in Ontario. . .

Mr. Blenkarn: They build some roads you see now with their own equipment anyway. They happen to have a grader, and they happen to have this road gang that goes around and occasionally patches the odd pothole itself. Then they also tender out pothole patching. Right now it does not matter, because they have to pay tax on their asphalt if they buy asphalt and put it in themselves, or when they have a contractor do it he has to pay the tax on it, and he presumably charges them a fee.

Now if you wind up putting a tax though on road-builders, or make road-builders a taxable entity then you have given a huge bias. . .

Mr. Wood: But it is possible to develop a self-supply rule. I mean, there are a number of self-supply rules.

Mr. Blenkarn: Yes, but how do you do it with municipalities when you have already said that municipal governments will be treated no differently than they presently are?

Mr. Wood: No, no. They are not going to be treated any differently; their total costs will not go up.

Mr. Blenkarn: Their tax position will not change.

Mr. Wood: No, that is not—

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Mr. Friedman: They will not have a greater tax burden under the national sales tax than they would under the existing—

Mr. Blenkarn: Precisely. Right now they have no burden in their own self-supply.

Mr. Wood: But you go through that formula and—

The Vice-Chairman: Well, then they have that edge over the small contractor.

Mr. Wood: No, it is an overall burden that is implied.

[Traduction]

que la municipalité doit probablement payer la taxe de vente sur les aggrégats, l'asphalte et tout ce qu'elle achète.

M. Wood: Elle pourrait aussi utiliser une formule et ajouter la taxe.

M. Blenkarn: Mais comment est-ce possible? J'en parlais justement, l'autre jour, avec des représentants de Mississauga. Je leur ai dit qu'il faudrait exonérer les constructeurs de routes ou établir une formule quelconque selon laquelle ils paieraient de la taxe sur leurs propres travaux.

Il me semble toutefois que, si le Ministre a déjà dit que la situation de la municipalité ne changerait pas. . .

M. Friedman: Par rapport à ses activités actuelles.

M. Blenkarn: C'est juste.

M. Friedman: Si les municipalités décidaient d'acheter tous les constructeurs de routes en Ontario. . .

M. Blenkarn: De toutes façons, elles construisent déjà des routes à l'aide de leurs propres équipements à l'heure actuelle. Elles ont leurs décapeuses et des équipes qui vont réparer les rues de temps à autre. Elles donnent aussi des contrats à cet effet. Mais cela n'a pas d'importance, puisqu'elles doivent payer de la taxe sur l'asphalte qu'elles achètent ou lorsqu'elles ont recours aux services d'un entrepreneur.

Si l'on impose une taxe sur les services de construction de routes, ce sera en quelque sorte du favoritisme. . .

M. Wood: Mais on pourrait établir une règle d'autoapprovisionnement. Il y en a déjà un grand nombre.

M. Blenkarn: Oui, mais comment appliquer cela aux municipalités, puisqu'on a déjà dit que le traitement des gouvernements municipaux ne sera pas différent de ce qu'il est à l'heure actuelle?

M. Wood: Non, non. Leur traitement ne sera pas différent; leurs frais n'augmenteront pas.

M. Blenkarn: Leur situation fiscale ne changera pas.

M. Wood: Non, ce n'est pas. . .

M. Friedman: Sous le régime de la taxe de vente nationale, leur fardeau fiscal ne sera pas plus important qu'à l'heure actuelle. . .

M. Blenkarn: Précisément. À l'heure actuelle, le fardeau fiscal des municipalités est nul sur leur autoapprovisionnement.

M. Wood: Mais cette formule signifie que. . .

Le vice-président: Qu'elles ont cet avantage sur le petit entrepreneur.

M. Wood: Non, il s'agit davantage d'un fardeau sur l'ensemble.

[Text]

Mr. Blenkarn: You see, my municipality does not collect its own garbage. It is the only one in all the municipalities around that does not. It hires Laidlaw to do it. They sit back and say well, if you are going to put a sales tax on garbage collection, or an MSST, then I guess we have to go buy our own garbage trucks and hire our own people. Well, that is inefficient.

The Vice-Chairman: It is a 10% saving.

Mr. Blenkarn: So why would you not just exempt garbage collection companies when they are dealing with municipalities?

Mr. Friedman: Because you are inserting more little rules.

Mr. Blenkarn: Well, you are inserting a hell of a little rule when you make the municipality pay tax or you exempt the municipality and therefore create a bias in the system. What are you talking about, inserting more rules? You really are inserting a rule when you say you are going to have to calculate the imputed costs, such as imputed rent, on your garbage collection.

Mr. Friedman: We have not touched an even thornier issue. The Ontario government spent \$500 million on road building last year. There is a suggestion that if they pull that within the Department of Highways, at a 10% rate they will save \$50 million a year, and they will put a lot of private contractors out of business.

Mr. Blenkarn: They sure will. They will put them all out of business.

Mr. Friedman: There is a concern over that.

The Vice-Chairman: Yes.

Mr. Friedman: I am not sure if Ontario builds its own roads right now, but your argument still applies.

Mr. Blenkarn: The fact is that this kind of a problem is there. And is not the only way around it to exempt those contractors who supply that kind of service to municipalities, provinces, or governments generally?

Mr. Wood: What if you just gave a refund to the municipality of the tax the person is charged and then not make it exempt? If you exempt it, to the extent that road-building equipment is used on something else you have an apportionment problem for the—

The Vice-Chairman: A commercial shopping centre—

Mr. Blenkarn: And you rebate it to the municipality that taxed the thing.

Mr. Hoffman: Right.

Mr. Friedman: But there is a concern. There is even a toss-up between going to a temporary help service to get temporary help or hiring people off the street. If you go

[Translation]

M. Blenkarn: La municipalité où j'habite ne fait pas elle-même le ramassage des ordures. C'est la seule à ne pas le faire dans ma région. Elle a confié la tâche à la société Laidlaw. Si nous imposons une taxe de vente sur le ramassage des ordures, ou une taxe multi-stades, elle a l'intention d'acheter ses propres camions et d'engager des gens pour faire elle-même le ramassage des ordures. Ce n'est pas efficace.

Le vice-président: Cela représente une économie de 10 p. 100.

M. Blenkarn: À ce moment-là, pourquoi ne pas tout simplement exonérer les sociétés qui font le ramassage des ordures quand elles font affaire avec des municipalités?

M. Friedman: Parce que cela signifie qu'il faut encore ajouter d'autres petites règles.

M. Blenkarn: Mais c'est aussi le cas si l'on fait payer de la taxe à la municipalité ou si on l'exonère, puisque l'on introduit ainsi un élément de favoritisme dans le système. Que voulez-vous dire par «introduire encore de petites règles»? N'est-ce pas ce que vous faites quand vous dites que vous allez devoir calculer les coûts qui ont été imputés au ramassage des ordures, comme la location, par exemple.

M. Friedman: Nous n'avons pas rencontré de questions plus épineuses que celle-là. L'année dernière, le gouvernement de l'Ontario a consacré 500 millions de dollars à la construction routière. S'il rapatriait tout cela au sein de son ministère de la Voirie, on estime qu'à un taux de 10 p. 100, il économiserait 50 millions de dollars par année, et ce faisant, il obligerait de nombreux entrepreneurs du secteur privé à fermer leurs portes.

M. Blenkarn: Oui, sans doute. Il va tous les obliger à fermer leurs portes.

M. Friedman: C'est plutôt inquiétant.

Le vice-président: Oui.

M. Friedman: Je ne sais pas si le gouvernement ontarien construit lui-même ses routes à l'heure actuelle, mais quoi qu'il en soit, votre argument tient toujours.

M. Blenkarn: Le problème est bel et bien là. La seule façon de le régler serait-elle d'exonérer les entrepreneurs qui offrent ce genre de service aux municipalités, aux provinces ou au gouvernement?

M. Wood: Et si l'on remboursait la taxe à la municipalité plutôt que de l'exonérer? Si on l'exonérait, lorsque l'équipement de construction routière serait utilisé à d'autres fins, il y aurait alors un problème de répartition pour l'oeuvre. . .

Le vice-président: Le centre commercial qui. . .

M. Blenkarn: Et la municipalité obtiendrait le remboursement de la taxe.

M. Hoffman: Oui.

M. Friedman: Mais il y a encore une difficulté. Il y a une différence entre retenir des services pour obtenir une aide temporaire et embaucher des gens sur une base

[Texte]

to the temporary help people, they are going to be forced to charge you tax on whatever they charge you, whereas if you as a municipality or provincial government hired your own temporary help or your own lawyers or your own accountants or your own architects, you would not suffer that tax burden. So there is a bias towards hiring people—

Mr. Blenkarn: Hiring your own people.

Mr. Friedman: —rather than hiring services, because on people there are no taxes, on services you are taxed.

Mr. Blenkarn: You are taxed on the labour.

Mr. Friedman: The question is how far does the self-supply rule go? Where does it end?

The Vice-Chairman: Yes. It would be a bias, Mr. Blenkarn, I think we would want to look at very hard. It is a reverse bias.

Mr. Blenkarn: Yes, because it seems to me the more labour involved in the self-supply the greater the bias. There is very little labour involved. But of course this is essentially a tax on labour, is it not?

Mr. Friedman: As you look at it right now, it is.

Mr. Blenkarn: Sure. Well, labour is essentially the thing that cannot be deducted. Everything else, essentially, can be deducted. It is a supply.

Mr. Friedman: In effect, carried to its extremity, if the municipality were to build its own trucks it would have even a lower tax burden.

Mr. Blenkarn: Sure. That is exactly true. They would build their own trucks, start their own asphalt plant. It is very possible.

The Vice-Chairman: Certainly you would want to have a sewer plant.

Anyway, I think we will turn to pages 410 to 412, passenger transportation. It leaves you free to go into financial services tomorrow.

Mr. Friedman: With passenger transportation it is going to be generally a simple computation. Domestic travel should be like any other good. There is a real concern with national sales tax. Who gets taxed if the train or plane or bus goes through more than one province? It tops over; there are different routes; there have to be some good rules to satisfy all of the provinces.

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With regard to not-for-profit services, except where in competition with commercial services, a question is does a 20-passenger or 60-passenger bus compete with a taxicab, or does a bus running on an exclusive franchise compete

[Traduction]

temporaire. L'agence dont on retiendra les services devra percevoir de la taxe, tandis que la municipalité ou le gouvernement provincial qui embaucherait lui-même les avocats, les comptables ou les architectes dont il a besoin sur une base temporaire n'aurait pas à payer de taxe. On aurait donc avantage à embaucher des gens. . .

M. Blenkarn: À embaucher les gens dont on a besoin.

M. Friedman: . . . plutôt que d'acheter des services, puisqu'en procédant ainsi, on ne paie pas de taxe, tandis qu'il faut en payer sur les services.

M. Blenkarn: On paie de la taxe sur la main-d'oeuvre.

M. Friedman: Jusqu'où va la règle de l'autoapprovisionnement? Où en est la limite?

Le vice-président: Oui. Ce serait un avantage, monsieur Blenkarn, qu'il faudrait examiner très sérieusement, selon moi. C'est un avantage inversé.

M. Blenkarn: Oui, parce qu'il me semble que plus il y a de main-d'oeuvre dans le contexte de l'autoapprovisionnement, plus l'avantage est grand. Il n'y a toutefois que très peu de main-d'oeuvre. Mais c'est essentiellement une taxe sur la main-d'oeuvre, évidemment, n'est-ce pas?

M. Friedman: Oui, de la façon dont vous présentez les choses, vous avez raison.

M. Blenkarn: Bien sûr. La main-d'oeuvre est en réalité le seul élément que l'on ne peut déduire. Tout le reste peut l'être, puisqu'il s'agit d'un service.

M. Friedman: En fait, à la limite, si la municipalité construisait ses propres camions, son fardeau fiscal en serait d'autant réduit.

M. Blenkarn: Oui, c'est tout à fait juste. Elle construirait ses propres camions, et se doterait de son usine de fabrication d'asphalte. C'est tout à fait possible.

Le vice-président: Elle pourrait aussi avoir son usine de traitement des égouts.

Quoi qu'il en soit, je pense que nous allons passer aux pages 410 à 412, ou «Transport des passagers». Nous pourrions aborder la question des services financiers demain.

M. Friedman: Pour le transport des passagers, le transport sera généralement assez simple. Le transport à l'intérieur du pays devrait être considéré comme tout autre bien. Sur le plan des transports, la taxe de vente nationale pose un problème réel. Qui doit payer la taxe lorsque le train, l'avion ou l'autobus traversent plus d'une province? Il y a des escales; il y a différents itinéraires; il doit y avoir des règles qui satisferont toutes les provinces.

En ce qui a trait aux services à but non-lucratif, sauf lorsqu'ils entrent en concurrence avec des services commerciaux, l'autobus de 50 ou 60 passagers fait-il concurrence au taxi, ou un autobus exploité en franchise

[Text]

with a train or a bus running on some other route? It is unclear how you would handle this. If I read the press correctly, Gray Coach, which is owned by Toronto Transit, is considering investing in a charter airline. That just adds another element to the whole equation as to when something is taxable and when it is exempt.

You have to look at impact on government subsidies. Public transit, for example, is usually subsidized. If you now turn around and tax some component of this, what you are doing is just raising the tax on public transit and in turn requiring something else to increase its subsidy to that transit as well. So you get into a circular argument. It is something that I am not sure the paper has looked at.

Taxes are payable on travel to U.S. if services are purchased in Canada. If I live in Niagara Falls, Ontario, and walk the half a kilometre across the bridge and buy my ticket through Niagara Falls or Buffalo to anywhere in the U.S., it appears that I will escape paying tax on any portion of that travel. For some reason we consider the U.S. part of Canada, so that if you travel anywhere within the North American bounds, it would be subject to that.

There is a strange comment that the current 10% plus \$4 air transportation tax is to be modified—not eliminated, modified. So we must assume it is a good thing and we will retain that along with the value-added tax on passenger transportation. There is no tax on other international travel.

Page 95, item 8.3, talks about travel agents, travel wholesalers, and tour operators. Generally, they indicate that you need special rules and they give an example.

If an individual arranged a foreign travel package directly, the purchase would not be subject to domestic tax. If the individual instead purchased the foreign travel package through a Canadian tour operator, the general sales tax rules would lead to an inappropriate result: the Canadian tour operator would be subject to tax on the full price.

However, they would not get a credit for their purchases. So they suggest that travel agents, travel wholesalers, and tour operators, in computing sales tax liability, be allowed to claim a notional input tax credit with respect to purchases of goods and service directly from foreigners for customers.

Mr. Blenkarn: Why would you not eliminate this travel business by making the travel industry exempt? In other words, anybody who buys anything in the travel industry pays tax on it, but they cannot pass it on. In other words,

[Translation]

exclusive fait-il concurrence à un train ou à un autobus desservant un autre itinéraire? La réponse n'est pas évidente. Si mon interprétation de ce que je lis dans les journaux est juste, Gray Coach, qui appartient à la société Toronto Transit, envisage d'investir dans une société de transport aérien nolisé. Cela ne vient qu'ajouter un autre élément au problème consistant à déterminer ce qui est taxable et ce qui est exonéré.

Il faut en envisager l'effet sur le plan des subventions gouvernementales. Les services de transport public, par exemple, sont habituellement subventionnés. Si l'on impose une taxe sur certaines de ces activités, cela signifie tout simplement que l'on prélève de la taxe sur les services de transport public, qui doivent par conséquent demander des subventions plus importantes. C'est un cercle vicieux. C'est un aspect que l'on ne semble pas avoir considéré.

Les voyages en destination des États-Unis sont taxables lorsque les services sont achetés au Canada. Si je demeure à Niagara Falls, en Ontario, il semblerait que je n'ai qu'à traverser le pont et à acheter mon billet à Buffalo, à destination de n'importe quel endroit aux États-Unis, et que se faisant, j'éviterai de payer de la taxe. Pour une raison ou pour une autre, on intègre les États-Unis au Canada, ce qui signifie que tout voyage en Amérique du Nord est taxable.

Il y a une étrange rumeur qui veut que la taxe actuelle sur le transport aérien de 10 p. 100 plus 4\$ soit modifiée—pas éliminée, mais modifiée. Nous devons donc supposer que c'est une bonne chose, et nous allons la conserver avec la taxe sur la valeur ajoutée au transport des passagers. Il n'y a pas de taxe sur les autres voyages à destination internationale.

A la page 95, à l'article 8.3, il est question des agents de voyage, des grossistes en matière de voyage et des organisateurs de visites guidées. D'une manière générale, les rubriques à cette page indiquent la nécessité de règles spéciales, et l'on donne un exemple.

Si une personne organisait directement un forfait touristique à l'étranger, l'achat ne serait pas assujéti à la taxe intérieure. Si, par contre, la même personne achetait un forfait touristique à l'étranger par l'intermédiaire d'un exploitant canadien de voyages organisés, les règles sur la taxe générale de vente entraîneraient un résultat inopportun: l'exploitant canadien serait assujéti à la taxe sur le prix total.

Mais elle n'obtiendrait toutefois pas de crédit de taxe pour cet achat. On suggère donc de permettre aux agents de voyage, aux grossistes et aux organisateurs de visites guidées, dans le calcul de la taxe de vente, de réclamer un crédit de taxe nationale pour les achats directs à l'extérieur du Canada de biens et de services à l'intention de leurs clients.

M. Blenkarn: Pourquoi ne pas tout simplement exonérer le secteur des voyages? Autrement dit, dans ce secteur, quiconque achète quelque chose doit payer de la taxe mais ne peut pas la faire passer à quelqu'un d'autre.

[Texte]

you break down the system. But since the system is all screwed up with excise taxes on fuel and airport taxes and all sorts of special rules and regulations and subsidies all over the place, why would you not just accept the situation? To the extent that it is implicit in goods, that is something that is there, and that is the way it is again. In an effort to become absolutely letter perfect, are you not creating more problems for yourself than are solvable?

Mr. Friedman: Well, in some sense it is an intellectual purity exercise.

Mr. Blenkarn: Yes.

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Mr. Friedman: But there is a fear, I suspect, that we have not thought of other things travel agents could get into, like insurance services or travellers' cheques. Can you push those boundaries again? I guess that... whether that is a fear. You may be correct that this area is isolated enough that you could make it tax-free—

Mr. Blenkarn: It has so many regulations and taxes on it in one form or another that you probably would not want to eliminate. I mean, I cannot see, for example, governments—certainly our government—eliminating the excise tax on gasoline or diesel fuel. You know, 8.1¢ a litre—huge amounts of money.

On top of that, there is the sales tax at the refinery. I mean, with these kinds of taxes on it, you sure would not want to have those taxes creditable against somewhere. So obviously there is a cascade effect in the tax. So why will you not just exempt everybody and forget about this whole deal?

Mr. Hoffman: Then you would not give the business user of travel services in Canada a credit.

Mr. Blenkarn: That is right. I mean, you use it, you use it. I agree with you that you wind up with a situation in which it is going to be built into export prices and all sorts of horrible problems. But the horrible problems are here anyway.

Mr. Hoffman: As Andy says, then the person selling you the airline ticket would sell you insurance for your travel. Or insurance on—

Mr. Blenkarn: We are going to get into the question of insurance sales and how you might tax those, presumably tomorrow, on a premium tax. Because that is part of the financial services business.

The Vice-Chairman: Would it possibly include a hotel—

Mr. Blenkarn: But that is another matter.

The Vice-Chairman: —for seven days, and a car when you got there and—

[Traduction]

Cela reviendrait à désorganiser le système, mais puisqu'il est déjà tout à fait incohérent, avec ses taxes d'accise sur le carburant et ses taxes d'aéroport, et toutes ses taxes spéciales, et ses règlements et ses subventions ici et là, pourquoi ne pas tout simplement accepter la réalité? Dans la mesure où c'est implicite dans le cas des marchandises, c'est comme cela que sont les choses. En cherchant trop la perfection, n'êtes-vous pas en train de créer d'autres problèmes insolubles?

M. Friedman: Oui, vous avez raison. On recherche peut-être trop la perfection.

M. Blenkarn: Oui.

M. Friedman: On peut se demander si on a envisagé toutes les autres choses que peuvent toucher les agents de voyage, par exemple l'assurance et les chèques de voyage. Peut-on aller encore plus loin? On peut légitimement se poser la question. Comme vous le dites, ce secteur est suffisamment isolé pour être détaxé...

M. Blenkarn: Il fait l'objet d'un grand nombre de règlements et de taxes sous une forme ou une autre; on ne serait probablement pas prêts à y renoncer. Par exemple, je ne vois pas comment les gouvernements, en tout cas, notre gouvernement, pourraient en venir à éliminer la taxe d'accise sur l'essence ou le carburant diesel. Comme vous le savez, 8.1c. le litre représente au bout du compte une somme d'argent considérable.

En outre, il y a la taxe de vente à la raffinerie. Dans ce contexte, on ne veut sans doute pas voir ces taxes faire l'objet d'un crédit d'impôt quelque part. Il y a un effet de cascade avec ces taxes. Dans ce cas, pourquoi ne pas exonérer tout le monde et laisser tomber des complications?

M. Hoffman: A ce moment-là, les voyages d'affaires au Canada ne feraient pas l'objet d'un crédit.

M. Blenkarn: En effet. L'homme d'affaires utiliserait le service et tant pis. Je suis d'accord avec vous sur le fait qu'il y a un problème horrible avec les prix à l'exportation et un certain nombre d'autres choses. Cependant, il y a déjà un problème horrible.

M. Hoffman: Comme Andy le disait, la personne qui vous vendrait un billet d'avion vous vendrait également de l'assurance pour le voyage. Ou encore de l'assurance...

M. Blenkarn: Nous prévoyons aborder demain la question de l'assurance et de la taxe sur les primes. C'est un secteur qui entre dans celui des services financiers.

Le vice-président: L'hôtel pourrait-il être inclus...

M. Blenkarn: C'est un autre sujet.

Le vice-président: ... pour une période de sept jours, par exemple, de même qu'une automobile une fois à destination...

[Text]

Mr. Blenkarn: Yes, but he is selling you the car in some other municipality somewhere, or making a reservation.

Mr. Friedman: Well, you know we are talking about international travel. In domestic travel you have no concern.

Mr. Blenkarn: Well in domestic—

Mr. Friedman: Then you have two—

Mr. Blenkarn: In domestic travel you have all sorts of domestic taxes already in place. If you want to try to make those creditable, then you have all sorts of problems. So why would you not just leave the damned thing as an exempt business and let persons who supply the travel eat the tax. . . and they do not charge a value-added.

Mr. Friedman: We are talking only about the commission by the travel agent.

Mr. Blenkarn: Yes, or the profit by the truck lines.

Mr. Friedman: But then let us back up—

Mr. Blenkarn: Or the municipal bus service. . . you pay \$1 to get on the streetcar. What are you going to do—add another 10¢ to the tax and—

Mr. Friedman: Be careful here. If I could get a credit by buying tickets, say, directly from an airline, or go through a travel agent and not get a credit—

Mr. Blenkarn: But suppose you do not get any credit at all?

Mr. Friedman: No. No, because—

Mr. Blenkarn: Supposing we build the system in such a fashion that we collect the tax and it is not creditable anywhere.

Mr. Friedman: No, but we are now to the point where we are looking at the whole airline ticket and not just a commission. We started out talking about whether or not that commission or that brokerage or the arranging of the tours. . . that component should attract a tax. Now we are expanding to say that none of the transportation—

Mr. Blenkarn: Why do we not just make airlines exempt? Everything they buy they pay tax on, and they cannot pass it on.

The Vice-Chairman: How could you pick out a single—

Mr. Friedman: Well, why you would not do that—

Mr. Blenkarn: The transportation industry, in other words—

Mr. Friedman: Well, why you are doing that, is that you get back to cascading. To the extent that I am a business person, or I am a large corporation and I—

[Translation]

M. Blenkarn: Oui, mais l'automobile serait fournie, la réservation serait faite dans une autre municipalité, quelque part ailleurs.

M. Friedman: Nous parlons bien ici des voyages internationaux, non pas des voyages au pays.

M. Blenkarn: Pour ce qui est des voyages au pays. . .

M. Friedman: À ce moment-là, il y a deux. . .

M. Blenkarn: En ce qui concerne les voyages au pays, il y a toute sorte de taxes qui s'y appliquent déjà. Si vous voulez qu'elles donnent lieu à un crédit, vous risquez d'avoir des problèmes. Pourquoi ne pas laisser tomber toute l'affaire, la considérer comme exonérée de taxe et laisser les fournisseurs de services de voyage absorber la taxe. . . Étant entendu évidemment qu'ils ne doivent pas la reporter.

M. Friedman: Il s'agit ici seulement de la Commission des agents de voyage.

M. Blenkarn: Oui, ou des bénéfices des sociétés de camionnage.

M. Friedman: Revenons. . .

M. Blenkarn: Ou des services municipaux de transport en commun. . . Le prix du passage est de 1\$. Faudrait-il ajouter 10c. . .

M. Friedman: Il faut faire attention ici. Si j'obtiens un crédit lorsque j'achète des billets directement auprès d'une société aérienne et que je n'en obtiens pas lorsque je passe par un agent de voyage. . .

M. Blenkarn: Et que se passe-t-il s'il n'y a aucun crédit dans un cas ou dans l'autre?

M. Friedman: Non, parce que. . .

M. Blenkarn: Supposons que nous percevions la taxe tout simplement et que nous n'accordions aucun crédit en retour.

M. Friedman: Nous en sommes venus à parler du prix total du billet d'avion et non plus seulement de la commission. Nous avons amorcé la discussion en nous demandant si la commission, le service de courtiers ou le service d'agence. . . cette composante seulement devait faire l'objet de la taxe. Maintenant nous parlons du transport de façon générale. . .

M. Blenkarn: Pourquoi ne pas exonérer tout simplement les sociétés aériennes? Elles paieraient la taxe sur tout ce qu'elles achètent et elles ne pourraient pas la reporter.

Le vice-président: Comment pourriez-vous prendre un seul secteur. . .

M. Friedman: Eh bien, la raison pour laquelle. . .

M. Blenkarn: L'industrie des transports, en d'autres termes. . .

M. Friedman: La raison tient à l'effet de cascade dont il a été question plus tôt. En tant qu'homme d'affaires, en tant que grande société. . .

[Texte]

Mr. Blenkarn: Oh, I appreciate that, Andy. I appreciate you get the cascading, very much, but the fact is that to recapture the tax and try to segregate it out is probably more cumbersome than it is worth. I mean, are you not better off to have some cascading and not worry about it?

Mr. Wood: What about their export sales?

Mr. Blenkarn: That is right—

Mr. Wood: Yes, I am also greatly concerned about those. How do they compete internationally with an airline that just comes in here and does not have to—

Mr. Blenkarn: Well, that is why you make them exempt.

Mr. Wood: But if they are in the system, then all of the inputs for that international travel would be free of tax—the aircraft and everything else.

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The Vice-Chairman: Tax-free.

Mr. Wood: They can compete on the international level, under your proposal, to make them tax-exempt, but the taxes get locked in, and it would be more difficult for them to compete with the others.

Mr. Blenkarn: I know. Say Canadian Airlines is buying or leasing some 767s. They take possession of these aircraft. I do not think aircraft have any federal sales tax on them right now. But the reason of course is the bloody airplane is flying to Florida tomorrow, and Lima, Peru, the next day, and it happens to be doing a Toronto-Ottawa trip the same day. What do you do with a situation like that? You have to leave the aircraft tax-exempt. So why are we arguing about taxes?

Mr. Friedman: No, no.

Mr. Wood: Not tax-exempt; you mean tax-free.

Mr. Friedman: With a tax-free vehicle or the taxable vehicle, if you tax airplane transportation, you automatically get a credit for any tax on the lease payments of those 767s. I think the whole idea of the shortcut may be unnecessarily complex. You may just say, we are going to lose some taxes. But to the extent a tour operator or a travel wholesaler arranges an international tour, there is no tax on it. That exercise would become tax-free.

Mr. Wood: Then you still have proration of that vehicle?

Mr. Friedman: No, tax-free.

Mr. Wood: No. Only the export on the domestic side.

The Vice-Chairman: Do pages 4-11 and 4-12 have a bearing on this, or are we going to try and cover it—

[Traduction]

M. Blenkarn: Je comprends, Andy. Je sais qu'il y a cet effet de cascade, mais d'essayer d'isoler la taxe pourrait se révéler trop compliqué. N'est-il pas préférable de laisser tomber l'affaire quitte à ce qu'il y ait un certain effet de cascade?

M. Wood: Qu'en est-il des exportations?

M. Blenkarn: C'est juste. . .

M. Wood: C'est une question qui m'inquiète beaucoup. Comment les sociétés aériennes peuvent-elles être concurrentielles sur le plan international alors que les autres n'ont pas. . .

M. Blenkarn: Voilà pourquoi elles devraient être exonérées.

M. Wood: Elles feraient quand même partie du même système; les intrants des autres sociétés seraient détaxés, les appareils et tout le reste.

Le vice-président: Tous ces intrants sont détaxés.

M. Wood: Ce que vous proposez, détaxer ces sociétés, peut sembler leur permettre d'être concurrentielles sur le plan international, mais il y a des taxes qui sont cachées, et il se peut qu'elles aient la vie dure.

M. Blenkarn: Je sais. Supposons que les Lignes aériennes canadiennes achètent ou louent des 767. Elles prennent possession de ces appareils. Je ne pense pas que les appareils soient la cible de taxes de vente fédérales actuellement. Il se trouve que ces appareils peuvent effectuer un voyage en Floride demain, puis se rendre à Lima, au Pérou, pour finalement aboutir sur l'itinéraire Toronto-Ottawa. la situation risque d'être difficile. C'est la raison pour laquelle il faut que ces appareils soient exonérés. Ne sommes-nous pas tous d'accord là-dessus?

M. Friedman: Non, non.

M. Wood: Ils ne sont pas exonérés de la taxe; ils sont détaxés.

M. Friedman: Si des appareils ou des véhicules sont détaxés, et qu'une taxe est imposée à un moment donné, il y a un crédit automatique; il y a un crédit pour la taxe sur les paiements de location des 767. La notion du raccourci pourrait bien être inutilement compliquée. Vous pouvez craindre de perdre des taxes. Cependant, il n'y aurait pas de taxe pour les voyageurs ou les courtiers d'agences générales de tourisme qui organiseraient des voyages internationaux. Ces services seraient détaxés.

M. Wood: Il y aurait un prorata?

M. Friedman: Non, le tout serait détaxé.

M. Wood: Non, seulement ce qui toucherait les voyages internationaux.

Le vice-président: Les pages 4-11 et 4-12 ont-elles quelque chose à y voir ou devons-nous essayer de faire rentrer cette question. . .

[Text]

Mr. Friedman: No. That is freight, and it is probably something you want to spend a few minutes on. Freight is a concern for most corporations.

Mr. Blenkarn: Yes. I suggest we adjourn, Mr. Chairman.

The Vice-Chairman: I think this is in order. I thank everybody for their patience. The meeting is adjourned.

[Translation]

M. Friedman: Non. Dans ce cas, il s'agit du transport des marchandises. La question mérite une certaine attention. C'est une préoccupation pour la plupart des sociétés.

M. Blenkarn: En effet. Je propose que nous levions la séance.

Le vice-président: Je pense que c'est indiqué. Je remercie tous les participants de leur patience. La séance est levée.



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HOUSE OF COMMONS

Issue No. 136

Wednesday, January 27, 1988

Chairman: Don Blenkarn

CHAMBRE DES COMMUNES

Fascicule n° 136

Le mercredi 27 janvier 1988

Président: Don Blenkarn

*Minutes of Proceedings and Evidence of the
Standing Committee on*

*Procès-verbaux et témoignages du Comité
permanent des*

Finance and Economic Affairs

Finances et des affaires économiques

RESPECTING:

Pursuant to Standing Order 96(2), consideration of
the White Paper and other related documents on
Tax Reform—Stage II (Sales Tax)

CONCERNANT:

En vertu de l'article 96(2) du Règlement, étude du
Livre blanc et autres documents connexes, ayant
trait à la réforme fiscale—deuxième étape (Taxe de
vente)



Second Session of the Thirty-third Parliament,
1986-87-88

Deuxième session de la trente-troisième législature,
1986-1987-1988

STANDING COMMITTEE ON FINANCE AND
ECONOMIC AFFAIRS

Chairman: Don Blenkarn

Vice-Chairman: Robert E.J. Layton

Members

Bill Attewell
Michael Cassidy
Mary Collins
Simon de Jong
Murray Dorin
Raymond Garneau
Paul McCrossan
George Minaker
Aideen Nicholson
Marcel R. Tremblay
Norman Warner

(Quorum 7)

Marie Carrière

Clerk of the Committee

COMITÉ PERMANENT DES FINANCES ET DES
AFFAIRES ÉCONOMIQUES

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(Quorum 7)

Le greffier du Comité

Marie Carrière

MINUTES OF PROCEEDINGS

WEDNESDAY, JANUARY 27, 1988

(206)

[Text]

The Standing Committee on Finance and Economic Affairs met at 4:34 o'clock p.m. this day, in Room 253-D, Centre Block, the Chairman, Don Blenkarn, presiding.

Members the Committee present: Don Blenkarn, Michael Cassidy, Mary Collins, Murray Dorin and Norman Warner.

In attendance: From the Committee's Research Staff: H. Bert Waslander, Research Director. David Weyman, C.A., Peat Marwick; Andy J. Friedman, C.A., Peat Marwick; Lorey A. Hoffman, Ph.D., Peat Marwick, Consultants.

In accordance with its mandate under Standing Order 96(2), the Committee resumed consideration of the White Paper and other related documents on Tax Reform—Stage II (Sales Tax) tabled in the House of Commons on Thursday, June 18, 1987. (*See Minutes of Proceedings and Evidence, Monday, January 25, 1988, Issue No. 133.*)

The Research Staff made a presentation and answered questions.

At 5:48 o'clock p.m., the Committee adjourned to the call of the Chair.

Marie Carrière
Clerk of the Committee

PROCÈS-VERBAL

LE MERCREDI 27 JANVIER 1988

(206)

[Traduction]

Le Comité permanent des finances et des affaires économiques se réunit, aujourd'hui à 16 h 34, dans la pièce 253-D de l'Édifice du centre, sous la présidence de Don Blenkarn, (*président*).

Membres du Comité présents: Don Blenkarn, Michael Cassidy, Mary Collins, Murray Dorin et Norman Warner.

Aussi présents: Du personnel de recherche du Comité: H. Bert Waslander, directeur de la recherche. David Weyman, c.a., Peat Marwick; Andy J. Friedman, c.a. Peat Marwick; Lorey A. Hoffman, ph.d., Peat Marwick, conseillers.

Conformément au mandat que lui confie le paragraphe 96(2) du Règlement, le Comité examine de nouveau le Livre blanc de la Défense et autres documents connexes ayant trait à la réforme fiscale—Deuxième étape (Taxe de vente), documents déposés sur le bureau de la Chambre des communes le jeudi 18 juin 1987 (*voir Procès-verbaux et témoignages du lundi 25 janvier 1988, fascicule n° 133.*)

Le personnel de recherche donne un exposé et répond aux questions.

À 17 h 48, le Comité s'ajourne jusqu'à nouvelle convocation du président.

Le greffier du Comité
Marie Carrière

EVIDENCE

[Recorded by Electronic Apparatus]

[Texte]

Wednesday, January 27, 1988

• 1630

The Chairman: I call the meeting to order. Pursuant to Standing Order 96.(2), we are resuming consideration of the White Paper and other related documents on Tax Reform—Stage II (Sales Tax).

We have Andy J. Friedman, Lorey Hoffman and Peter H. Wood. You will excuse my delay in getting here, but I thought my vice-chairman would be. . . I was out making a speech on multi-stage sales taxes to the restaurant and food people. We are imparting all the wisdom that you have given us so far and we are telling them how wonderful it was.

• 1635

Mr. David Weyman (Consultant to the Committee): In fact, you are still on this.

Some hon. members: Oh, oh.

The Chairman: I said we could only put it together if we had the total co-operation of the New Democratic Party, of the Liberal Party—

Mr. Cassidy: I see.

The Chairman:—and a unanimous taxing system.

Mr. Andy Friedman (Consultant to the Committee): You did not discuss when the pizza was going in the oven.

The Chairman: As a matter of fact, I even produced the pizza that came.

Mr. Friedman: The most important thing, did you tell them the difference between exempt and tax-free?

Mr. Cassidy: That is bad enough. I am delighted to hear this indication of your preparedness to co-operate with us after the next election.

The Chairman: I do not know why we should wait for that. I would have thought, in the interests of good government, what you would have done, if being insisted, is proceed immediately with this new sales tax form. We would get it into legislation in accordance with our report, and then when you take over, Michael, as the new Minister of Finance, you will not have to go through all this hassle.

Mr. Cassidy: That is tempting.

Some hon. members: Oh, oh!

The Chairman: You will have the money. You will have all the revenue there. You will be in great shape. You never want to take over a problem. That is why we

TÉMOIGNAGES

[Enregistrement électronique]

[Traduction]

Le mercredi 27 janvier 1988

Le président: La séance est ouverte. En vertu de l'article 96.(2) du Règlement, nous poursuivons notre examen du Livre blanc et autres documents connexes sur la réforme fiscale—deuxième étape (taxe de vente).

Nos témoins cet après-midi sont Andy J. Friedman, Lorey Hoffman et Peter H. Wood. Vous excuserez mon retard, mais je croyais que mon vice-président serait ici. . . J'ai dû aller prononcer un discours sur la taxe de vente multi-stades devant un groupe du secteur de la restauration et de l'alimentation. Nous partageons toutes les connaissances que vous nous avez enseignées jusqu'à maintenant et nous faisons la louange de la nouvelle taxe.

M. David Weyman (consultant auprès du Comité): En fait, nous en sommes toujours là.

Des voix: Ah, ah.

Le président: Je leur ai dit que nous réussirons à peaufiner le nouveau régime si nous pouvons compter sur la totale coopération du Parti néo-démocrate, du Parti libéral. . .

M. Cassidy: Je vois.

Le président: . . . et sur l'unanimité des contribuables.

M. Andy Friedman (consultant auprès du Comité): Vous ne leur avez pas expliqué le paradoxe du four et de la pizza.

Le président: Bien au contraire, je leur ai même servi la pizza.

M. Friedman: Leur avez-vous expliqué l'essentiel, c'est-à-dire la différence entre exonération et détaxation?

M. Cassidy: C'est déjà bien assez compliqué. Je suis ravi d'apprendre que vous êtes disposés à coopérer avec nous après la prochaine élection.

Le président: Je ne vois pas pourquoi nous devrions attendre d'avoir franchi cette étape. J'aurais cru que, partisans du bon gouvernement, vous auriez insisté pour que nous instaurions sans plus tarder cette nouvelle taxe de vente. Nous l'aurions prévue dans la loi, conformément à notre rapport, et cela vous aurait évité, Michael, quand vous deviendrez le nouveau ministre des Finances, tout ce chichi.

M. Cassidy: Que c'est tentant.

Des voix: Ah, ah!

Le président: Vous aurez déjà les recettes dans les caisses de l'État et vous aurez les coudées franches. Il est toujours préférable de ne pas hériter d'un problème.

[Texte]

were so successful. The Liberals left us in such marvellous condition.

Were we at page 4-13?

Mr. Friedman: No, we ended off near the bottom of page 4-10, but in the interest of keeping integrity of a subject, we thought it was important that we spend an hour and a half on financial services and institutions. So we could start at page 4-15 and then finish off transportation tomorrow morning.

The Chairman: That is Canadian proposal taxing value added.

Mr. Friedman: Lorey is going to do most of the talking this afternoon. He has the expertise in the area, and if we have any time at the end, then we can proceed with transportation.

Mr. Lorey Hoffman (Consultant to the Committee): Good afternoon, Mr. Chairman, members of the committee. I wonder if we might now turn to the tax treatment of financial services under the government's proposal on page 4-13. The sales tax treatment of financial services, as we shall see, is particularly vexatious. At the outset, I would like to say that, as Andy Friedman pointed out on Monday night for our earlier presentations, we would be very happy if we could come away from these meetings with a fuller understanding of the distinction between exemption and zero rating.

For the purposes of this session, I think the critical thing to come away with is that however much this tax for financial services looks like an income tax, or looks like a tax on interest or dividends, it most certainly is not.

The fact that it employs interest and dividends and other financial concepts in its construction is only for the purposes of establishing what the value for tax of financial services is.

Generally speaking, most countries do not tax financial services explicitly. This is not a complete truism. For instance, a number of countries do levy value-added taxes in name, at least, on insurance services.

The Chairman: Yes, but we have provinces that charge a premium tax right now, which in effect is a sales tax on premiums.

• 1640

Mr. Hoffman: It is a sales tax on premiums, but as I shall try to demonstrate to the committee, it is not a tax on value added—

The Chairman: I appreciate that, but when you start comparing the other proposals, you find they are not really value added but specific taxes on dollar value of premium or dollar value of insured amount, bearing no relationship to anything else.

Mr. Hoffman: I will try to convince the committee. Austria, for example, levies a VAT on insurance premiums, as does Zimbabwe, but they are VATs and, as

[Traduction]

Voilà pourquoi nous nous en sommes si bien tirés. Les libéraux nous ont laissé les choses en si bon état.

En étions-nous à la page 4-13?

M. Friedman: Non, nous nous sommes arrêtés au bas de la page 4-10, mais pour des raisons de cohérence, nous estimons qu'il serait important de consacrer toute l'heure et demie à l'examen du secteur financier. Nous pourrions donc reprendre à la page 4-15, puis terminer demain notre examen du secteur des transports.

Le président: Nous allons donc discuter de la proposition canadienne de taxation de la valeur ajoutée.

M. Friedman: Cet après-midi, ce sera Lorey qui dirigera la séance d'information, puisque c'est lui l'expert en la matière, et s'il nous reste du temps, nous terminerons l'examen du secteur des transports.

M. Lorey Hoffman (consultant auprès du Comité): Bon après-midi, monsieur le président, membres du Comité. Passons, si vous le voulez bien, à la proposition du gouvernement de taxation des services financiers, soit à la page 4-13. Comme vous le constaterez, c'est là une question particulièrement épineuse. Je vous rappelle dès le départ ce que Andy Friedman vous a signalé à la première séance de lundi soir, à savoir que l'objectif de ces réunions, c'est d'en arriver à mieux comprendre la distinction entre l'exonération et la détaxation.

Le but premier de cette séance est de démontrer que si cette taxe sur les services financiers ressemble à un impôt sur le revenu ou à une taxe sur les intérêts et les dividendes, elle n'en est pas du tout une.

Si elle fait intervenir les intérêts et les dividendes et d'autres notions financières, c'est uniquement dans le but de déterminer la valeur des services financiers aux fins de la taxe.

En règle générale, la plupart des pays semblent ne pas taxer les services financiers. Or, certains d'entre eux font des prélèvements, notamment sur les services d'assurance, qui n'ont d'une taxe sur la valeur ajoutée que le nom.

Le président: Oui, mais certaines provinces canadiennes prélèvent déjà une taxe sur les primes qui est en fait une taxe de vente sur les primes.

M. Hoffman: S'il s'agit effectivement d'une taxe de vente sur les primes, je vais néanmoins essayer de démontrer au Comité que ce n'est pas une taxe sur la valeur ajoutée. . .

Le président: Je le sais très bien, mais quand nous comparons les autres propositions, nous constatons très rapidement qu'il ne s'agit pas de taxes sur la valeur ajoutée, mais bien de taxes sur la valeur vénale des primes ou de la somme assurée.

M. Hoffman: Je vais essayer de convaincre le Comité. Par exemple, l'Autriche, comme le Zimbabwe, prélèvent une TVA sur les primes d'assurance, mais ce sont, comme

[Text]

you say, are taxes on gross premiums. As I shall try to demonstrate, taxes on gross premiums or gross margins charge for financial services. They are not in and of themselves value-added taxes.

We might turn to 4-13. What do we mean by the consumption of a financial service? What exactly does a financial intermediary, the classic case being a bank or a trust company, provide to lenders and borrowers?

Essentially the bank or trust company, in the traditional sense, is economizing on the costs of bringing borrowers and lenders together. For example, I will be shopping around for a house mortgage in Toronto in the next few months. If I were to search for loanable funds from members of the committee or other people present in this room, I might find it a rather expensive process to convince them to give me a mortgage.

The bank or trust company essentially reduces the cost to me and to parties on the other side of the transaction, mainly savers. It reduces their costs in finding each other. For this the intermediary charges the two parties an explicit fee or a fee earned in the form of a spread on a transaction.

The Chairman: Therein is the problem. It is in the form of a spread and the question boils down to: what is the spread? The trouble is that you are pooling money and you get some money at a very small rate of interest and some at a very high rate of interest. Since interest rates vary by the minute, what in hell is the spread?

Mr. Hoffman: That hits the nail on the head. As I shall demonstrate, herein lies the reason why countries with VATs of the credit invoice type have not levied value-added taxes on spreads. As the chairman pointed out, it is impossible to determine the value added on any particular transaction, but the government has circumvented this problem by going directly and only to a calculation based on the GST. It is a calculation of the subtraction method and financial institutions will not be required to measure the value added inherent in every single transaction.

As we will see in a few minutes, this leads to other problems. It may alleviate the problems of calculating the tax base for the financial institution itself, but it creates difficulties in providing a credit to the customer on the other side.

Let me move on. What does an insurer do when he creates value added?

Mr. Friedman: Before you move on, it is important to realize that the tax, as we have been talking about for the last two days, is a tax on the consumer. It is not a tax on the bank; it is a tax on the—

[Translation]

vous le dites, des taxes sur le montant brut des primes. Je vais essayer de vous démontrer que ce sont des taxes sur le montant brut des primes ou sur les marges bénéficiaires brutes payées par les institutions financières. Ce ne sont pas des taxes sur la valeur ajoutée comme telles.

Passons à la page 4-13. Qu'entend-on par la consommation d'un service financier? Que fournit l'intermédiaire financier, généralement une banque ou une compagnie de fiducie, aux prêteurs et aux emprunteurs?

La banque ou la compagnie de fiducie économise, dans le sens classique, sur le coût des services d'intermédiation entre emprunteur et prêteur. Par exemple, j'essaierai, dans les mois à venir, de trouver une hypothèque résidentielle à Toronto. Si je devais essayer d'obtenir un prêt des membres du Comité, ou de quelqu'un qui se trouve dans cette salle, ce serait peut-être onéreux pour moi de les convaincre de m'accorder une hypothèque.

La banque ou la compagnie de fiducie réduit essentiellement les coûts que je devrai payer et ceux des autres parties à la transaction, surtout les épargnants. Elle réduit les coûts de mise en présence des uns et des autres. L'intermédiaire fait payer ce service aux deux parties en imposant des frais explicites ou en se prenant une marge bénéficiaire sur la transaction.

Le président: Voilà où réside le problème. La rémunération de ce service prend la forme d'une marge bénéficiaire, et il s'agit alors de déterminer à quoi correspond cette marge. Le problème tient au fait que vous mettez en commun des fonds sur lesquels vous payez un très faible taux d'intérêt et d'autres fonds sur lesquels vous payez un très fort taux d'intérêt. Puisque les taux d'intérêt varient d'une minute à l'autre, comment diable calculez-vous la marge bénéficiaire?

M. Hoffman: Vous touchez là au noeud du problème. C'est ce qui explique, comme je vais le démontrer, pourquoi les pays qui prélèvent des TVA selon la méthode des crédits et des factures n'ont pas prélevé de taxes sur la valeur ajoutée sur les marges. Comme l'a signalé le président, il est impossible de déterminer la valeur ajoutée d'une transaction donnée, mais le gouvernement a tourné ce problème en prélevant directement une taxe sur les biens et services. Le calcul est fait selon la méthode de la soustraction, et les institutions financières ne seront pas tenues de mesurer la valeur ajoutée de chacune des transactions.

Comme nous le verrons dans quelques minutes, cela crée d'autres problèmes. Si cette solution évite aux institutions financières d'avoir à calculer l'assiette de la taxe, il est par contre plus difficile d'accorder un crédit au client.

Poursuivons. Que fait un assureur quand il crée une valeur ajoutée?

M. Friedman: Je vous interromps pour rappeler ce sur quoi nous insistons depuis deux jours, à savoir que la taxe est une taxe sur la consommation. Ce n'est pas la banque qui doit acquitter la taxe, mais bien. . .

[Texte]

The Chairman: Yes it is. It is a tax on the bank.

Mr. Friedman: No.

The Chairman: If you follow Lorey's explanation, you take the total spread over the whole year. You received \$10 in interest; you paid for the borrowed \$9; you made a dollar spread. We are charging you 10¢ on the dollar spread and you pay 10¢ tax. How do you pass it on? You cannot pass it on, because there is no way you can determine which of the borrowers, which of the lenders, or in which portion lenders or borrowers got hosed or should pay the tax. All you have is a gross spread, over the year or the period of time.

• 1645

Mr. Friedman: But is that any different from taking a widget, costing you 90¢, and selling it for \$1? You have a 10¢ difference, which you are taxing.

The Chairman: If that is the case, it is fine. Then you can take all the inputs, subtract it from the tax, and do it that way. It is a subtraction method of taxation.

Mr. Friedman: Which is exactly what this is, but if you go back to page 1-1, the multi-stage sales tax is a tax on final domestic consumption of goods and services. I am not trying to confuse you.

The Chairman: I know, but there is no way you can pass this tax on. You have to treat the bank as a final consumer, because there is no way the borrowers from a bank, or the lenders to a bank, can in any way attribute the tax to the interest they pay or the interest they receive.

In other words, it is a gross spread tax, and it is a good sales-type tax. There is nothing wrong with that. But it cannot be passed on. A commercial lender or borrower from the bank can never determine what tax was charged on the interest he got.

Mr. Friedman: Are you suggesting he must do it in some random fashion?

The Chairman: It is one of those taxes that borrowers, lenders, or depositors pay, and it is collected by governments, and governments give banks an allowance, presumably for their inputs. They may or they may not. It does not matter, because it does not really matter whether they give them a credit or not.

It is a form of taxing banks or institutions, but to do that does not accomplish the pass-through of the tax to the ultimate person who bears it. The consequence is that any tax implicit in a borrowing is cascaded, or not recoverable anywhere by anybody.

[Traduction]

Le président: Au contraire. C'est une taxe sur la banque.

M. Friedman: Non.

Le président: Si l'on se fie à l'explication donnée par Lorey, il faut rendre la marge globale sur l'ensemble de l'année. La banque touche 10\$ d'intérêts; elle paie 9\$ sur les fonds qu'elle emprunte; elle réalise une marge d'un dollar. Le gouvernement prélève dix cents de taxe sur ce dollar. Comment la banque peut-elle transmettre cette taxe? La taxe ne peut être répercutée sur qui que ce soit parce qu'il est impossible de déterminer quels emprunteurs ou quels prêteurs, pris individuellement ou en groupes, ont obtenu le service et devraient payer la taxe. Tout ce qu'a la banque, c'est la marge brute pour l'année ou l'exercice.

M. Friedman: Quelle différence y a-t-il avec un machin qui vous coûte 90c. et que vous revendez 1\$? La différence de 10c. est taxée.

Le président: Si c'est le cas, c'est parfait. Le coût de tous les intrants peut alors être soustrait de la taxe. La taxe est calculée selon la méthode de la soustraction.

M. Friedman: C'est exactement ce qui se produit avec cette taxe, mais si vous vous reportez à la page 1-1, vous constaterez que la taxe de vente multi-stades est une taxe sur la consommation finale intérieure de biens et de services. Je n'essaie pas de semer la confusion.

Le président: Je sais, mais il est impossible de répercuter cette taxe sur qui que ce soit. Il faut que la banque soit réputée être le consommateur final, parce que les emprunteurs de la banque ou ses prêteurs ne peuvent absolument pas attribuer la taxe aux intérêts qu'ils paient ou aux intérêts qu'ils reçoivent respectivement.

Autrement dit, c'est une taxe sur la marge brute, et c'est une bonne taxe de vente en son genre. Je n'ai rien à redire là-dessus. Mais cette taxe ne peut pas être répercutée sur le prochain maillon de la chaîne. L'entreprise qui prête à la banque ou qui emprunte de la banque n'est absolument pas en mesure de calculer la taxe correspondant au montant d'intérêts touché ou versé.

M. Friedman: Nous dites-vous qu'ils doivent faire un calcul approximatif?

Le président: C'est une de ces taxes que doivent payer aux gouvernements les emprunteurs, les prêteurs ou les déposants, en échange de quoi les gouvernements peuvent leur accorder un crédit au titre de leurs intrants. Ils ne le font pas nécessairement. De toute façon, il importe peu qu'ils leur accordent un crédit.

C'est une taxe que les banques et autres institutions financières doivent payer, mais qu'il leur est impossible de répercuter sur le consommateur final. Par conséquent, toute taxe ajoutée au coût d'un emprunt a un effet de cascade, et personne ne peut en obtenir le remboursement.

[Text]

Mr. Hoffman: I think the chairman's remarks are in the right direction. In my view, they are somewhat strong. I would modify them, not that it is impossible to pass the tax on. For instance, most economists and I believe the corporate tax is passed on as a form of a sales tax. Ultimately, consumers bear taxes.

The Chairman: All taxes are passed on, but you cannot allocate to whom the tax was passed on. You can say that lenders to banks, depositors or borrowers pay the tax, because obviously banks will increase their margins to cover the tax. They have to make a profit, so they are going to increase their markets to cover the tax, and so governments will collect a tax. How the hell you can allocate that tax to anybody is hard to say.

You cannot even be sure that it is passed on. In other words, it may be passed on to the shareholders of the bank.

Mr. Hoffman: It might be.

The Chairman: It could be eaten by the shareholders of the bank.

Mr. Hoffman: I think that is most unlikely, if you think of Canada as being a price-taker on the world capital market. Most people would think the tax is passed on to the consumers.

Mr. Dorin: You are correct, but those are in macro-economic terms, and even depending on the financial situation of the day, I think you would have to agree that ultimately the tax is going to be paid by some combination of the shareholders, the depositors, and the borrowers. But there is no other way to put it down on the face of the invoice.

Let us assume, for a moment, it is 100% paid by the borrowers. There is no way to put it down on the face of the invoice or their loan document that says your interest bill for 1988 is \$100,000 plus 5% tax, so it is \$105,000, thank you very much. Therefore the business that has viewed interest as an input could then deduct the tax. I think that is what the chairman is getting at. Sure, somebody pays it ultimately, but there is no way to trace it through, and ultimately that 5% or 8% tax goes into the cost of production of the manufacturing company that uses it as cost of capital.

Mr. Hoffman: I do not disagree with that.

The Chairman: We came to the same type of suggestion when we produced an alternate minimum margin tax, when we did our first-stage report. Essentially, that was a tax based on 15 points on the domestic spread, as far as banks and trust companies were concerned. Essentially,

[Translation]

M. Hoffman: L'interprétation du président n'est pas tout à fait fausse, mais, à mon avis, elle va un peu trop loin. Pour ma part, je ne dirais pas qu'il est impossible de répercuter la taxe sur le prochain maillon de la chaîne. Par exemple, je crois, comme la plupart des économistes, que l'impôt des sociétés est répercuté sous forme de taxe de vente. En dernière analyse, ce sont les consommateurs qui paient les taxes.

Le président: Toutes les taxes sont transmises le long de la chaîne, mais il est impossible de faire la répartition proportionnelle de cette taxe. Vous pouvez dire que les prêteurs, les déposants ou les emprunteurs des banques paient la taxe parce que les banques vont manifestement augmenter leur marge bénéficiaire pour couvrir la taxe. Comme elles doivent réaliser des profits, elles vont augmenter d'autant leur marge, et les gouvernements toucheront la taxe. Mais je vois mal comment vous pouvez faire la répartition proportionnelle de cette taxe.

Vous ne pouvez même pas être certain qu'elle a effectivement été transmise. Autrement dit, elle peut très bien être transmise aux actionnaires de la banque.

M. Hoffman: C'est possible.

Le président: Les actionnaires de la banque pourraient être obligés de l'acquitter.

M. Hoffman: À mon avis, c'est peu probable, puisque le Canada doit accepter le prix qui s'établit sur le marché mondial des capitaux. La plupart des gens croient que la taxe est répercutée sur les consommateurs.

M. Dorin: Vous avez raison, mais vous parlez en termes macro-économiques, et vous devez admettre que, selon la conjoncture financière, les actionnaires, les déposants et les emprunteurs se partageront le fardeau de cette taxe. Mais cette répartition proportionnelle ne peut être inscrite sur la facture.

Supposons que les emprunteurs paient la totalité de la taxe. Il est absolument impossible d'écrire sur leur facture ou sur leur contrat d'emprunt que la facture des intérêts pour 1988 s'élève à 105,000\$, soit 100,000\$ plus 5 p. 100, et merci. L'entreprise qui aurait considéré les intérêts comme un coût d'intrant pourrait alors déduire la taxe. Voilà, je crois, ce que cherche à faire valoir le président. Il est clair que quelqu'un doit payer la taxe au bout du compte, mais il est absolument impossible de la transmettre d'un maillon à l'autre de la chaîne, de sorte que la taxe de 5 ou de 8 p. 100 est ajoutée au coût de production du fabricant, qui la considère comme un coût en capital.

M. Hoffman: Je ne conteste pas cela.

Le président: Nous avons fait le même raisonnement quand nous avons proposé, dans notre rapport sur la première étape de la réforme, l'instauration d'un impôt minimum de remplacement sur les marges bénéficiaires. Nous avons proposé, essentiellement, un impôt de 15

[Texte]

then, it was the same type of tax you are talking about. It is a margin tax. In other words, you take the gross amount of domestic interest received against interest paid on domestic deposits, subtract one from the other, and there you have your spread. Since we were dealing with income tax, we said that this was the alternate tax against paying corporate tax of 28%, based on your financial statement income. You could have it without its being an alternate tax. You just have it as an extra tax. There is no problem with that one.

[Traduction]

points de base sur la marge bénéficiaire réalisée par les banques et les compagnies de fiducie sur leurs opérations canadiennes. C'était donc le même genre de taxe sur les marges bénéficiaires. Autrement dit, la marge correspond à la différence entre le montant brut des intérêts payés par les emprunteurs canadiens et les intérêts versés sur les dépôts canadiens. Comme nous parlions alors d'impôt sur le revenu, nous avons dit que les sociétés devaient payer soit cet impôt de remplacement, soit l'impôt des sociétés au taux de 28 p. 100, sur les revenus déclarés dans les états financiers. De la même façon, au lieu de prélever une taxe de remplacement, on pourrait prélever une taxe additionnelle. Cela ne poserait aucun problème.

Mr. Hoffman: The 15% figure is ad hoc. You do this in the subtractive method, and you cannot identify the value added on any particular transaction. Nor can you identify who is consuming the service in whole, the depositor or the borrower. This necessitates some level of ad hockery. You are quite right: these taxes are related. This one is somewhat more sophisticated, recognizing there is an attempt here to integrate this tax in the whole of the value-added tax scheme.

M. Hoffman: Le chiffre de 15 p. 100 est utilisé à titre d'exemple. La méthode de la soustraction ne permet pas de déterminer la valeur ajoutée sur une transaction donnée. Elle ne permet pas non plus de déterminer si c'est le déposant ou l'emprunteur qui consomme le service tout entier. Il faut donc recourir à l'à peu près. Vous avez tout à fait raison: ces taxes sont apparentées. Celle-ci est légèrement plus raffinée, puisque l'on a cherché à intégrer cette taxe à la structure globale de la taxe sur la valeur ajoutée.

Mr. Friedman: That is what I was saying. It is the same kind of a tax. You have said that you cannot use the credit-invoice method, but what you are using is the GST method.

M. Friedman: C'est bien ce que je disais. C'est le même genre de taxe. Vous avez dit qu'il est impossible d'utiliser la méthode des crédits et des factures, mais vous utilisez en fait une taxe sur les biens et services.

The Chairman: But you cannot pass the tax on to the next level of consumption.

Le président: Mais cette taxe ne peut pas être répercutée sur le prochain maillon de la chaîne de consommation.

Mr. Friedman: Not specifically.

M. Friedman: Pas directement.

Mr. Hoffman: You will pass the tax on, but you never know what the exact tax content is. Ultimately, it may prove to be somewhat difficult for financial institutions to correct their pricing so as to accurately recover the tax owing. I will not dispute that, and in submissions I think some people will bring this to your attention.

M. Hoffman: Cette taxe sera transmise, mais il est impossible de savoir quelle fraction du prix correspond à la taxe. Les institutions financières auront sans doute du mal à ajuster leurs prix pour recouvrer le plein montant de la taxe. Je ne conteste pas cela, et je suis certain que les témoins que vous entendrez vous le signaleront.

Let me just turn to insurance services for a moment, because they are somewhat different. An insurer provides value-added by economizing on the costs of pooling risks, at least in a very simple term-insurance product. I want to insure my home. Given the law of large numbers, I need to put a large number of people together into a pool to pay in premiums. Claims will be paid out. It is expensive for me to find people willing to jump into this financial pool with me. What the insurer does is stand as an intermediary willing to negotiate with people willing to pay premiums and pay out the claims. Hence, he earns a margin for provision of that service.

J'aimerais parler brièvement des services d'assurance, où l'analyse est légèrement différente. Un assureur ajoute de la valeur en économisant sur le coût de la mise en commun des risques, du moins pour ce qui est du produit le plus simple, l'assurance temporaire. Par exemple, je veux faire assurer ma maison. Étant donné la loi des grands nombres, je dois mettre en commun les primes payées par un grand nombre de personnes. Il y aura décaissement pour les sinistres. Ce serait trop onéreux pour moi de réunir des personnes prêtes à partager avec moi ce fardeau financier. L'assureur, lui, assume le rôle d'intermédiaire prêt à négocier avec ceux qui acceptent de verser des primes et de régler les sinistres. Il réalise donc une marge bénéficiaire sur la prestation de ce service.

Mr. Warner: It is the margin you are going to be taxing in that case.

M. Warner: Et c'est cette marge bénéficiaire que vous allez taxer dans ce cas-là.

Mr. Hoffman: Right, and not the whole of the premium. When I pay a premium to an insurance company, that company will then turn around and pay out claims to other people in the insurance pool.

M. Hoffman: Oui, et non pas la totalité de la prime. Quand je verse une prime à une compagnie d'assurance, elle règle les sinistres des autres réclamants.

[Text]

Mr. Warner: So what are you going to tax? Are you going to tax premiums, less claims, less expenses of doing business?

Mr. Hoffman: Yes, exactly.

Mr. Warner: Not expenses.

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Mr. Hoffman: Premiums less claims, minus expenses, as with any other business, and as we shall see, you will also have to include an investment margin.

Mr. Warner: So it ends up. . . is it mainly a profit-type thing?

Mr. Dorin: Profit plus wages.

Mr. Hoffman: Economic profits plus wages. That is correct. Just as it is for everybody else.

We might turn to the next page now, tax treatment in other countries. As I said at the outset, financial services are generally exempt in other countries, and as the preceding discussion has indicated, the crucial reason for this circumstance is that it is impossible to tax value added on any specific transaction.

That notwithstanding, it is interesting to note that the United Kingdom does tax brokerage fees, in contradiction of the sixth directive of the EEC. Specifically, they tax brokerage fees for domestic consumption, so fees charged on sales of securities to non-residents are zero rated.

Israel has experimented with something called the addition method. Perhaps you have encountered value-added tax theory, a concept that says the subtraction method is also equivalent to a tax on wages and salaries and economic profits. What Israel has done is to try to levy a tax on banks by levying the tax on wages and salaries and, I think, the net book income of the financial institution.

Mr. Dorin: I would like to go back to the bank for a minute, because what happens in the situation of, let us say, the Bank of Japan—I do not know if there is such a thing—that does business in Canada and lends only. They have no depositors. What is their margin?

Mr. Hoffman: They are not taxable. Do you mean if they are operating from Japan or operating in Canada?

Mr. Dorin: Operating in Canada.

Mr. Hoffman: A Japanese subsidiary of the Japanese bank?

The Chairman: It has a depositor; it has its head office.

Mr. Dorin: Well, I guess what I am saying is that if you look at the Royal Bank of Canada and exclude external operations, you can look at the difference. I mean, somewhere in their bookkeeping you have the cost of

[Translation]

M. Warner: Qu'allez-vous taxer alors? Allez-vous taxer les primes, déduction faite des sinistres et des frais d'entreprise?

M. Hoffman: Oui, exactement.

M. Warner: Moins les frais.

M. Hoffman: Les primes, moins les sinistres, moins les dépenses, comme dans n'importe quelle entreprise et, comme nous le verrons, il faut aussi inclure une marge sur les placements.

M. Warner: En fin de compte, est-ce surtout un profit?

M. Dorin: Les profits, plus la rémunération.

M. Hoffman: Les profits économiques, plus la rémunération. C'est exact. C'est la même règle pour tous.

Nous pouvons maintenant passer à la page suivante, c'est-à-dire le traitement fiscal dans les autres pays. Comme je l'ai dit au début, les services financiers sont généralement exonérés dans les autres pays et, comme cela a été établi au cours du débat précédent, la raison essentielle de ce fait, c'est qu'il est impossible d'imposer la valeur ajoutée à n'importe quelle transaction particulière.

Il est intéressant de noter, pourtant, que le Royaume-Uni impose effectivement les droits de courtage, à l'encontre de la sixième directive de la CEE. L'imposition porte expressément sur les droits de courtage pour consommation intérieure, de sorte que les droits appliqués à la vente de valeurs à des non-résidents sont considérés comme nuls.

Israël a fait l'expérience de ce qu'on appelle la méthode de l'addition. Vous êtes peut-être au courant de la théorie de la taxation sur la valeur ajoutée, notion selon laquelle la méthode de la soustraction équivaut à un impôt sur la rémunération et sur les profits économiques. Israël a entrepris de percevoir un impôt sur les banques en appliquant cet impôt à la rémunération et, me semble-t-il, aux revenus comptables nets de l'institution financière.

M. Dorin: J'aimerais revenir à la banque un instant, et plus précisément à la situation, par exemple, de la Banque du Japon—je ne sais pas s'il existe une telle institution—faisant affaire au Canada à titre de prêteur seulement. Cette banque n'a pas de déposants. Quelle est sa marge?

M. Hoffman: Elle n'est pas imposable. Mais est-elle administrée au Japon ou au Canada?

M. Dorin: Au Canada.

M. Hoffman: C'est une filiale japonaise de la banque japonaise?

Le président: Elle possède un déposant; il y a bien son siège social.

M. Dorin: Là où je veux en venir, c'est que, si nous examinons la Banque royale du Canada et que nous excluons ses opérations externes, nous pouvons voir quelle est la différence. En somme, dans sa comptabilité,

[Texte]

funds and you have the revenue, what they got for those funds, the difference between the interest paid and the interest earned. That is determinable.

However, what about for the lender, for the financial institution? It is easier to explain in terms of banks, but it would apply equally to anybody else, including insurance companies and others who operate in this country—those who might do business on one side only, I guess is the way I am putting it.

Mr. Hoffman: Yes. The rules are designed to cover those situations. What you have just described is a classic Schedule B bank, or financing companies that might have equity capital, no deposits, and yet lend money. How do you form a margin if you do not have depositors, if you do not have interest expense? There are rules designed here that will impute or create an amount to measure the opportunity cost of the capital funds on the other side of the balance sheet. This is a pretty sophisticated. . . you have gone right to the most difficult part of the piece here, so maybe I can hold off for a while.

Mr. Friedman: That is the top building block, so to speak.

Mr. Dorin: I will wait.

Mr. Hoffman: Just before I leave the addition method, a number of people have asked me before: Would not the addition method be simpler? You simply add up the value of, say, salaries and net book income.

However, there are some problems there. First of all, the addition method is inherently origin based, and since Canada is trying to adopt a destination-based tax. . . Take the situation of a Canadian chartered bank that, say, exports 50% of its financial services. Presumably that means 50% of its salaries are paid to people engaged in the export of services. If you levy a tax on the gross amount of wages and salaries, you have taxed far too much. So that would necessitate complex rules for apportioning financial institutions' international and domestic business, and then using those to reduce the tax base. As you will see, you are going to end up with the same complications that this method poses.

• 1700

There are two other problems with the addition method. It is not purely a tax on consumption. If you levy the tax on, say, the value of wages and salaries paid by a bank to its employees, that does not proxy the value of consumption of those bank employees; after all, if I am a bank employee, for every dollar I make as a salary, I save part of that dollar. Some of those wages constitute savings and not just consumption.

[Traduction]

il y a le coût des fonds et les recettes, ce qui a été obtenu à partir de ces fonds, la différence entre l'intérêt payé et l'intérêt gagné. Cela peut se déterminer.

Mais qu'en est-il du prêteur, de l'institution financière? C'est plus facile à expliquer dans le cas des banques, mais cela s'appliquerait également à n'importe qui d'autre, y compris les compagnies d'assurances et d'autres établissements qui exercent leur activité au Canada. Il s'agit, pourrait-on dire, de ceux qui exercent leur activité d'une manière unilatérale.

M. Hoffman: Oui. Les règles visent à s'appliquer à ces situations. Ce que vous venez de décrire, c'est le cas classique d'une banque relevant de l'Annexe B, c'est-à-dire les établissements financiers qui peuvent posséder un avoir propre, qui ne reçoivent pas de dépôts et qui, pourtant, prêtent de l'argent. Comment peut-on réaliser une marge si l'on n'a pas de déposants, si l'on n'a pas de dépenses en intérêts? Nous avons ici des règles qui attribuent ou créent un montant pour mesurer le manque à gagner des fonds d'immobilisations dans l'autre partie du bilan. C'est plutôt complexe. Vous êtes tombé sur la partie la plus difficile du document. Peut-être pourrions-nous remettre cette question à plus tard?

M. Friedman: C'est le sommet de l'édifice, en somme.

M. Dorin: J'attendrai.

M. Hoffman: Avant d'en finir avec la méthode de l'addition, j'aimerais dire que des gens m'ont déjà demandé si la méthode de l'addition ne serait pas plus simple. Il suffirait alors d'ajouter, par exemple, la rémunération et le revenu comptable net.

Mais cette solution présente des problèmes. Tout d'abord, la méthode de l'addition est fondée essentiellement sur l'origine. Or, le Canada s'efforce d'adopter un impôt fondé sur la destination. Prenons le cas d'une banque à charte canadienne qui, mettons, exporte 50 p. 100 de ses services financiers. On peut supposer, par conséquent, qu'elle verse 50 p. 100 de sa rémunération à des personnes qui travaillent à l'exportation des services. Si l'on perçoit un impôt sur la valeur brute de la rémunération, l'imposition est excessive. Il faudrait donc des règles complexes pour répartir l'activité internationale et l'activité nationale des institutions financières, puis utiliser ces règles pour réduire l'assiette fiscale. Comme vous le verrez, ce serait aboutir aux mêmes complications que l'autre méthode.

La méthode de l'addition crée deux autres problèmes. Ce n'est pas uniquement un impôt sur la consommation. Si l'on perçoit l'impôt, par exemple, sur la valeur de la rémunération versée par une banque à ses employés, cela n'équivaut pas à la valeur de la consommation de ces employés; après tout, si je suis un employé d'une banque, j'épargne une partie de chaque dollar que je gagne. Une partie de cette rémunération constitue de l'épargne, et non pas uniquement de la consommation.

[Text]

A third problem is more a political one, I think. You are more qualified than I am to talk about it, but you might think about this. There might be a peception that you have levied the tax on bank employees and not on consumers of banking services. I will leave that one with you.

Property and casualty insurance is taxable in New Zealand. You can investigate this more closely, I am sure, in the next weeks. In New Zealand a credit is given for the tax paid on a premium for property and casualty insurance, but the claim received by a claimant is included as a taxable sale. This is almost the same treatment we are going to get to for Canada, but it is my belief that there is a fundamental flaw in the New Zealand treatment. If it were adopted in Canada, as I will try to demonstrate, you will be perpetually writing cheques to insurance companies. I honestly do not have an explanation for why New Zealand has gone this way.

The Chairman: It is a nice, quiet, little island, is it not?

Mr. Hoffman: They may have a bankrupt island if insurance companies operate there as they do in Canada. This means that you are only taxed from the underwriting account and not from the investment account of a property and casualty insurer; typically, underwriting accounts run at a loss.

Mr. Warner: If a person has, say, a loss with an appraised value of \$200, the insurance company issues a cheque for \$200, less the tax, and remits the tax. Is the insured penalized because of this tax?

Mr. Hoffman: The insurance company calculates his tax as essentially premiums, minus claims, minus other inputs.

Mr. Dorin: What about the insurance consumer?

Mr. Hoffman: The insurance consumer would take a credit for tax paid on the premium.

Mr. Dorin: As a business expense?

Mr. Hoffman: Right, as a business expense.

Mr. Dorin: But not a residential consumer.

Mr. Hoffman: No.

Mr. Friedman: It gets a little bit more complicated, because a residential consumer, in order to replace a \$100 damage claim, which might cost \$110 with the tax, will get \$10 more to pay for the claim.

Mr. Warner: The claim will be \$110, but does this trigger a tax? There is no tax.

[Translation]

Il y a un troisième problème, qui est plutôt politique, à mon sens. Vous êtes mieux qualifiés que moi pour en parler, mais vous voudrez sans doute y réfléchir. On pourra croire que vous avez perçu un impôt sur les employés des banques, et non sur les consommateurs des services bancaires. Je sou mets cette question à votre réflexion.

L'assurance sur les biens et risques divers est imposable en Nouvelle-Zélande. Vous pourrez examiner cette situation plus à fond, j'en suis sûr, au cours des prochaines semaines. En Nouvelle-Zélande, on applique un crédit à l'impôt payé sur une prime d'assurance des biens et risques divers, mais l'indemnité reçue par un réclamant est considérée comme une vente taxable. C'est assez semblable à ce que nous aurons au Canada, mais, à mon sens, il existe une faiblesse fondamentale dans le système néo-zélandais. Si celui-ci était adopté au Canada, comme j'avais essayé de le montrer, nous serions constamment en train de faire des chèques au nom des compagnies d'assurances. Je ne comprends vraiment pas pourquoi la Nouvelle-Zélande a décidé de procéder de cette manière.

Le président: C'est une belle petite île tranquille, n'est-ce pas?

M. Hoffman: Ce sera peut-être une île en faillite si les compagnies d'assurances fonctionnent là-bas comme elles le font au Canada. En somme, l'imposition porte uniquement sur le compte de l'assurance, et non sur le compte des placements d'un assureur de biens et risques divers; habituellement, les comptes d'assurances sont négatifs.

M. Warner: Si quelqu'un subit une perte évaluée à 200\$, par exemple, la compagnie d'assurances produit un chèque de 200\$, moins l'impôt, et remet l'impôt. L'assuré est-il pénalisé à cause de cet impôt?

M. Hoffman: La compagnie d'assurances considère que l'impôt de l'assuré est constitué essentiellement par les primes, moins les indemnités, moins les autres intrants.

M. Dorin: Qu'en est-il du consommateur de l'assurance?

M. Hoffman: Il recevrait un crédit sur l'impôt appliqué à la prime.

M. Dorin: Au titre des frais d'exploitation?

M. Hoffman: Oui, au titre des frais d'exploitation.

M. Dorin: Mais ce ne serait pas le cas d'un consommateur privé.

M. Hoffman: Non.

M. Friedman: Cela se complique un peu, car un consommateur privé, pour remplacer une indemnité de 100\$, qui pourrait coûter 110\$, impôt compris, obtient 10\$ de plus pour le paiement de la créance.

M. Warner: La créance est de 110\$, mais cela crée-t-il un impôt? Il n'y a pas d'impôt.

[Texte]

Mr. Friedman: No, because he would then take the \$110 and would purchase goods for \$110 and the government would get \$10 back on the goods.

Mr. Hoffman: So it is a wash.

Mr. Friedman: It is a wash. It would not be a wash if, very simply, an insurance company with premiums of \$200 a year and claims of \$220 a year ends up getting money back from the government, notwithstanding they may have investment income on the side.

Mr. Dorin: For the insurance company, it would not matter to them whether it was a consumer, i.e., a residential auto or a house, or a business. However, there has to be a loss somewhere because if you look in the aggregate, the investment account makes money and the premium account or whatever you call it loses. The underwriting account is in a loss position, but in the aggregate that is not totally true because the credit being given is only being given to business inputs to the insurance buyers who are using insurance as an input cost in their business. There was a net difference there that is going to wash out some place for that element of the insurance that is bought in the consumer market.

The Chairman: Some insurance is bought by ultimate consumers. He is saying that when it is bought by ultimate consumers, then there is...

• 1705

Mr. Hoffman: He pays taxes.

The Chairman: Well, why would you not just have the tax on the premium? Why would you have anything to do with the—

Mr. Dorin: Have you been getting letters lately, sir?

Mr. Friedman: By the way, Quebec has a provincial sales tax on premium, but it is just right off the top.

The Chairman: That is right, and if you make that tax credible, then those who are in business who buy insurance deduct the tax they paid on their insurance policy.

Mr. Friedman: What do you do with pay-outs? Let us say as an example I pay a \$1,000 premium. There is a 9% sales tax in Quebec of \$90, and I take a credit for \$90, and the insurance company breaks even on me and gives me back my \$1,000—the company is ahead by \$90.

The Chairman: No, they are not. The company charged you \$90 tax. They had to remit that tax to the government, less their taxable inputs. What is the difference?

Mr. Friedman: What if they break even or gain on it?

The Chairman: What does that have to do with it?

[Traduction]

M. Friedman: Non, car il prendrait les 110\$ et achèterait pour 110\$ de marchandises, et le gouvernement récupérerait 10\$ sur les marchandises.

M. Hoffman: L'un neutralise l'autre?

M. Friedman: Oui, mais ce serait différent si, pour prendre un exemple très simple, une compagnie d'assurances recevant 200\$ de primes et versant 220\$ d'indemnités par année reçoit à la fin de l'argent du gouvernement, bien qu'elle puisse, par ailleurs, obtenir un revenu de ses placements.

M. Dorin: Pour la compagnie d'assurances, peu importe que l'assurance s'applique à une voiture de plaisance, à une maison ou à une entreprise. Il faut pourtant une perte quelque part, car, si l'on examine les comptes globalement, le compte des investissements fait des gains et le compte des indemnités subit des pertes. Le compte de l'assurance subit une perte, mais, globalement, ce n'est pas tout à fait exact, puisque le crédit n'est accordé qu'aux intrants d'affaires dans le cas des acheteurs d'assurances pour qui l'assurance compte parmi les frais d'exploitation. Il existe ici une différence nette qui va s'établir quelque part dans le cas de cet élément de l'assurance qui est achetée sur le marché de la consommation.

Le président: Il y a de l'assurance qui est achetée par les derniers consommateurs. Dans ce cas...

M. Hoffman: Ceux-ci paient la taxe.

Le président: Dans ce cas, pourquoi ne pas tout simplement appliquer la taxe à la prime?

M. Dorin: Avez-vous reçu des lettres ces derniers temps, monsieur?

M. Friedman: Justement, le Québec impose une taxe de vente provinciale sur les primes, mais c'est seulement au sommet de l'échelle.

Le président: C'est exact. Les gens d'affaires qui achètent de l'assurance peuvent déduire la taxe qu'ils ont payée sur leur police d'assurance.

M. Friedman: Qu'en est-il des remises? Supposons que je paie une prime de 1,000\$. Au Québec, il y a une taxe de vente de 90\$; je prends un crédit de 90\$, mais la compagnie d'assurance ne subit pas de perte dans mon cas et me remet mes 1,000\$. Dans ce cas, la compagnie a gagné 90\$.

Le président: Pas du tout. La compagnie vous a imposé une taxe de 90\$. Il lui a fallu remettre cette taxe au gouvernement, moins ses intrants taxables. Où est la différence?

M. Friedman: Qu'arrive-t-il si elle ne subit pas de perte, ou même réalise un gain là-dessus?

Le président: Cela ne change rien à l'affaire.

[Text]

Mr. Weyman: I think what you are suggesting is, let me put it this way, that life insurance companies should not be part of a multi-stage sales tax system. They should be taken right out of it, as it were exempt, in the language we have been talking in over the past two days. They pay tax on their inputs, and the federal government should instead impose a premium tax outside of the multi-stage sales tax. I think that is what the chairman is suggesting.

Mr. Hoffman: The logic driving that is what I am missing.

Mr. Weyman: It is simplicity, I think.

The Chairman: The other thing is this: is it a business input or not?

Mr. Hoffman: Are we now talking about property and casualty insurance?

The Chairman: Property and casualty insurance, or life insurance for that matter. You might have life insurance as a requirement to satisfy your bank, which is a lender to you, that if the key man died there would be some money to pay off. That would be normally a business expense, which you could write off in the business.

Mr. Hoffman: Generally speaking, life insurance is not a business income.

The Chairman: That is right, although it can be, but why worry about it? In the effort to be book-perfect, do we not create all sorts of difficult problems? When you get into a question of insurance, if you are going to tax, why do you not just tax the premiums?

Mr. Hoffman: As we will try to show, in many areas this proposal works very well. Property and casualty insurance happens to be one of them. There are problems. I would like to get to those, but the solution you are proposing right off the bat, namely exemption, is not problem-free.

If you look at what has happened in Europe, the first thing that happens is part of the base goes, which in Canada is not an unsubstantial amount of the value-added base. There are a very great many employees in the financial service sector in this country. The tax base you would be taking out of there would necessitate not an insubstantial increase in rate.

Secondly, you are going to have some financial companies providing financial and non-financial services. You are going to have to send Revenue Canada people into each and every caisse populaire in northern Quebec, or co-op in western Canada, with auditors asking people to apportion their inputs.

All you have done is shift the problems of measurement from the sales side to the input side. To say that it is simpler and the compliance costs go away is

[Translation]

M. Weyman: Ce que vous voulez dire, je pense, c'est que les compagnies d'assurance-vie ne devraient pas relever d'un système de taxe de vente multi-stades. Elles devraient en être retirées, en être exonérées, selon l'expression que nous utilisons depuis deux jours. Elles paient une taxe sur leurs intrants, et le gouvernement fédéral devrait à la place imposer une taxe sur les primes, en dehors du régime de la taxe de vente multi-stades. C'est, je pense, ce que suggère le président.

M. Hoffman: Cela ne me semble pas logique.

M. Weyman: C'est une question de simplicité, me semble-t-il.

Le président: Il y a aussi la question suivante: s'agit-il ou non de frais d'exploitation?

M. Hoffman: Parlons-nous ici de l'assurance sur les biens et risques divers?

Le président: Oui, et aussi, d'ailleurs, de l'assurance-vie. Votre banque, à titre de prêteur, pourrait exiger que vous preniez une assurance-vie, pour que, si la personne clé venait à mourir, il y ait de l'argent à rembourser. Ce serait normalement des frais d'exploitation que l'on pourrait déduire.

M. Hoffman: En général, l'assurance-vie n'est pas un revenu d'affaires.

Le président: C'est exact. Elle peut l'être, mais pourquoi nous soucier de cela? En visant la perfection comptable, ne créons-nous pas toutes sortes de problèmes difficiles? En ce qui concerne la taxation de l'assurance, pourquoi ne pas imposer tout simplement une taxe sur les primes?

M. Hoffman: Comme nous allons essayer de le montrer, dans bien des cas, cette proposition fonctionne très bien. C'est le cas, notamment, de l'assurance sur les biens et risques divers. Mais il y a des problèmes. J'aimerais y revenir, mais la solution que vous proposez pour l'instant, c'est-à-dire l'exonération, n'est pas non plus sans créer des problèmes.

Si l'on examine ce qui s'est passé en Europe, la première chose à survenir, c'est la disparition d'une partie de l'assiette. Au Canada, ce serait une part non négligeable de l'assiette de la valeur ajoutée. Il existe de très nombreux employés dans le secteur des services financiers de notre pays. L'assiette fiscale qui serait ainsi retirée entraînerait une augmentation assez importante des taux.

Deuxièmement, il y a des entreprises financières qui fournissent à la fois des services financiers et des services non financiers. Il va falloir envoyer des enquêteurs de Revenu Canada dans chaque caisse populaire du nord du Québec ou dans chaque coopérative de l'Ouest canadien, et les vérificateurs vont demander aux gens de répartir leurs dépenses.

Tout ce qu'on fait, c'est alors de faire passer les problèmes de mesure de la vente aux dépenses. On ne peut absolument pas prétendre que ce soit plus simple et

[Texte]

simply not true. Experience in Europe demonstrates that the compliance costs have not gone away by exemption.

The Chairman: Well, Lorey, all you are really pointing out to us is that Simpson-Sears sells insurance. We obviously have the same employees selling insurance who sell boots and shoes. I mean, obviously you might have to tax some products a little differently from the standard way of taxing.

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Mr. Weyman: I do not think he is talking about the agency aspect, but the actual insurance itself, the underwriting aspect of insurance in the insurance company.

Mr. Hoffman: That is what we are talking about.

If I might turn to page 4-15, as I have pointed out, the government's proposal is only to tax financial services with the GST or subtraction method. As we have said, we simply cannot do it with a traditional VAT.

If you will permit me to seem a trifle highbrow for a moment, I want to turn in a loose way to the underlying theory of the tax once again. As many people have said, this tax is equivalent to a tax on wages and economic profits. When they talk about value-added tax, economists have a convenient fiction that firms earn some normal rate of return and that the savers and investors earn this normal rate of return.

It is important to understand that the intention is not to levy this tax on what is called the normal rate of return to savers. It is only the intention to levy the tax on wages and economic profits, profits over and above the normal rate of return. To levy the tax on a normal rate of return to saving is to influence investment behaviour. The rules are designed to take the normal rate of return to savings out of the tax base and hence the tax is neutral in terms of investment.

The Chairman: I do not understand what you are talking about. What is a normal rate of return? Do you mean that if I make a super rate of return, the tax does not influence—

Mr. Dorin: He does not want to influence the financial markets between varying instruments such as debt or equity.

Mr. Hoffman: Yes, precisely. Let me illustrate this with a simple example. I am a householder and a borrower comes to me and says he would like to use my funds to consume. How much am I going to charge him for foregoing consumption myself? I have to demand 10% a year to forego consuming. That is my rate of return to savings.

[Traduction]

que les coûts d'application disparaissent. L'expérience de l'Europe montre que les coûts d'application ne sont pas disparus du fait de l'exonération.

Le président: Eh bien, Lorey, tout ce que vous nous signalez, c'est tout simplement que Simpson-Sears vend de l'assurance. Évidemment, ce sont les mêmes employés qui vendent de l'assurance et qui vendent des chaussures. En somme, il est bien évident qu'il va falloir taxer certains produits un peu différemment de la manière la plus courante.

M. Weyman: À mon sens, il ne veut pas parler de l'agence, mais de l'assurance elle-même, du travail de l'assurance proprement dite à la compagnie d'assurance.

M. Hoffman: C'est de cela que nous parlons.

Si nous passons à la page 4-15, comme je l'ai signalé, le gouvernement propose seulement de taxer les services financiers par la méthode de la soustraction. Nous l'avons déjà dit: il est tout simplement impossible d'appliquer la taxation classique sur la valeur ajoutée.

Si vous me permettez d'avoir un instant l'air quelque peu académique, j'aimerais revenir d'une manière générale à la théorie sous-jacente de la taxation. Comme l'ont dit beaucoup de gens, cette taxe équivaut à une taxe sur la rémunération et sur les profits économiques. Lorsqu'ils parlent de la taxation sur la valeur ajoutée, les économistes entretiennent la fiction commode selon laquelle les entreprises obtiennent un rendement normal, tout comme les épargnants et les investisseurs.

Il importe de comprendre qu'on ne veut pas percevoir cette taxe sur ce qu'on appelle le rendement normal de l'épargne. On veut seulement recevoir l'impôt sur la rémunération et sur les profits économiques, c'est-à-dire les profits qui dépassent le rendement normal. Percevoir la taxe sur le rendement normal de l'épargne, c'est influencer le comportement en matière d'investissement. Les règles visent à retirer de l'assiette fiscale le rendement normal de l'épargne; la taxe est donc neutre au point de vue de l'investissement.

Le président: Je ne sais pas de quoi vous parlez. Quel est le rendement normal? Voulez-vous dire que si j'obtiens un rendement extraordinaire, la taxe n'influence pas. . .

M. Dorin: On ne veut pas influencer les marchés financiers entre les divers instruments, entre la dette ou l'avoir propre, par exemple.

M. Hoffman: Oui, précisément. J'aimerais illustrer cela par un exemple bien simple. Je suis un particulier, et un emprunteur vient me dire qu'il aimerait utiliser mes fonds à des fins de consommation. Combien vais-je lui demander en retour pour renoncer moi-même à cette consommation? Il me faut demander 10 p. 100 par année pour renoncer à la consommation. C'est le rendement de mes épargnes.

[Text]

The bank steps between the borrower and lender and says it can get you those funds, but will have to charge you a little spread. It can get them for 10% and will charge you an extra percent, in total 11%. The bank earns its percent spread. The ultimate lender, the household, has earned its 10% and I am paying 11%. It is 10% to the ultimate lender, the household, and 1% to the bank.

The normal return to savings is the 10% because it is simply a transfer of funds between the borrower and lender and not value added per se. The only value added in the example is the one percent earned by the bank, which it pays to its employees. The 10% should not enter the margin calculation and it does not because we say you take 11% minus 10% to get a tax base of 1%.

Mr. Cassidy: I am beginning to get the message, which is that we should go back to the manufacturers sales tax.

Mr. Friedman: You mean the manufacturers sales tax applied at the wholesale level.

Mr. Cassidy: It is a bit like medieval theology. Is there a just rate of return? The normal rate of return may vary by region, type of institution, the length of the transaction, the type of borrower or the type of lender. I am sure there are other factors as well.

Mr. Hoffman: Yes, absolutely. Since these rules to determine the tax base use the actual flow of funds, the interest between borrowers and lenders going through each and every financial institution, you circumvent the problem because you are using the actual measurement for the tax base of funds as they flow through the intermediary.

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As you say, the market forces change daily and yearly amongst sectors and between different kinds of classes of borrowers and lenders. This is quite right, but the numbers we use to do the tax calculation employ exactly those market-determined prices.

Mr. Cassidy: This means that if you take a financial institution, which, for example, has reserves of 10% of its loans, then you impute a rate of return to the equity that is equivalent to what it is paying for the money it borrowed to lend back out. Is this right?

Mr. Hoffman: You are getting a little ahead of me here. If it were simply true that this bank in our example only took deposits, then you simply use the deposit rates, since all the interest paid over the course of the year would reflect the varying deposit rates, and you would get the right answer.

[Translation]

La banque intervient entre l'emprunteur et le prêteur; elle peut vous obtenir ces fonds, mais elle devra exiger de vous un intérêt un peu plus élevé. Elle peut les obtenir à 10 p. 100 et vous demander un point de pourcentage additionnel, soit au total 11 p. 100. La banque gagne son point de pourcentage. Le dernier prêteur, le particulier, a gagné ses 10 p. 100, et je paie 11 p. 100. C'est 10 p. 100 pour le dernier prêteur, le particulier, et 1 p. 100 pour la banque.

Le rendement normal de l'épargne est constitué par les 10 p. 100, car c'est tout simplement un transfert de fonds entre l'emprunteur et le prêteur, et non pas une valeur ajoutée en soi. La seule valeur ajoutée de l'exemple est constituée par le point de pourcentage gagné par la banque, et cette partie est versée en salaires aux employés de la banque. Les 10 p. 100 ne doivent pas intervenir dans le calcul de la marge: c'est qu'on prend 11 p. 100, moins 10 p. 100, pour obtenir une assiette fiscale de 1 p. 100.

M. Cassidy: Je commence à comprendre ce qu'on semble nous dire, c'est-à-dire que nous devrions retourner à la taxe de vente à la fabrication.

M. Friedman: Vous voulez dire la taxe de vente à la fabrication appliquée au niveau de la vente en gros.

M. Cassidy: C'est un peu comme la théologie médiévale. Existe-t-il un rendement équitable? Le rendement normal peut varier selon les régions, selon les établissements, selon la durée de la transaction, selon le type d'emprunteur ou le type de prêteur. Et je suis sûr qu'il y a aussi d'autres facteurs.

M. Hoffman: Oui, absolument. Puisque ces règles servant à déterminer l'assiette fiscale utilisent la circulation effective des fonds, l'intérêt entre les emprunteurs et les prêteurs au sein de chaque établissement financier, on évite le problème, puisqu'on utilise pour l'assiette fiscale la mesure effective des fonds qui passent par l'intermédiaire.

Vous avez raison: les forces du marché évoluent tous les jours et tous les ans entre les secteurs et entre différents types ou différentes catégories d'emprunteurs et de prêteurs. C'est tout à fait vrai, mais les chiffres que nous utilisons pour faire le calcul de la taxe emploient exactement ces prix déterminés par le marché.

M. Cassidy: Cela veut dire que si vous prenez une institution financière qui, par exemple, possède des réserves pour 10 p. 100 de ses prêts, vous attribuez alors un rendement de l'avoir propre qui équivaut à ce que l'établissement paie pour emprunter l'argent qu'il prête à son tour. Est-ce exact?

M. Hoffman: Vous me devancez quelque peu ici. S'il était vrai dans notre exemple que la banque prend tout simplement les dépôts, alors on utiliserait tout simplement les tarifs des dépôts, puisque tout l'intérêt payé au cours de l'année traduirait la diversité des taux appliqués aux dépôts, et on obtiendrait alors la bonne réponse.

[Texte]

The story gets a little complicated once you introduce your example where you have equity funds.

Mr. Cassidy: Is this not what we are talking about? If you have to calculate a normal rate of return—

Mr. Hoffman: You have to do an imputation. That may lead to problems.

Mr. Cassidy: In order not to just simply apply a rate willy-nilly, you have to impute on the basis of what the institution is paying in the market.

Mr. Hoffman: Absolutely. We will turn to that shortly, but you are quite right.

You might turn to page 4-16. What do we really mean by financial services? For the example in our discussion, it means borrowing and lending money, deposit taking, issuing, purchasing and transferring financial instruments, underwriting services, and insurance.

The white paper has outlined specifically upon whom these rules would be fixed, and the list includes Schedule A and B banks, trust companies, credit unions and caisses-populaires, investment dealers, life insurance companies, property and casualty companies.

The Chairman: Strangely not finance companies.

Mr. Hoffman: No. Financial and acceptance companies are included in there.

The Chairman: Where?

Mr. Hoffman: In the white paper. The white paper indicates that acceptance companies will be.

The Chairman: They will be in here too?

Mr. Hoffman: Yes. For example, GMAC Acceptance is providing loans to people who purchased General Motors cars in the same fashion that a bank is providing a loan to a householder.

The white paper indicates that in order to be treated as a financial institution, your principal business must be financial services. If generally 50% or more of my business is of financial services as defined, I will be caught under these additional rules.

The white paper has also indicated that certain people will not be caught, namely holding companies, venture capitalists, and deferred income plans, such as RPPs and TRSPs. You might ask yourself whether in certain circumstances some of the latter will be engaged in providing financial services in the same fashion as everybody else, and the answer is yes. The white paper is silent on why they are exempt from the rules. I would suggest to you that it may have something to do with several factors. First of all, you probably will not get a lot

[Traduction]

Les choses se compliquent un peu si, dans votre exemple, vous ajoutez l'avoir propre.

M. Cassidy: N'est-ce pas de cela que nous parlons? S'il vous faut calculer le rendement normal. . .

M. Hoffman: Il faut faire une attribution. Cela pourrait créer des problèmes.

M. Cassidy: Si l'on ne veut pas imposer un taux arbitraire, il faut faire l'attribution en se fondant sur ce que l'établissement paie sur le marché.

M. Hoffman: Absolument. Nous y reviendrons, mais vous avez tout à fait raison.

Nous pouvons peut-être passer à la page 4-16. Qu'entendons-nous au juste par les services financiers? Pour l'exemple qui nous a servi dans notre discussion, cela veut dire les emprunts et les prêts d'argent, la réception de dépôts d'argent, l'émission, l'achat ou la cession de valeurs, la prise ferme de valeurs et les services d'assurance.

On décrit expressément dans le Livre blanc ceux à qui ces règles s'appliqueraient, et la liste comprend les banques des annexes A et B, les sociétés de fiducie, les caisses de crédit et les caisses populaires, les négociants et courtiers en valeurs mobilières, les assureurs-vie, les assureurs généraux (biens et risques divers).

Le président: Mais non les sociétés de prêt. C'est étrange.

M. Hoffman: Pardon, on y trouve les sociétés de prêt et de financement.

Le président: A quel endroit?

M. Hoffman: Dans le Livre blanc. Il est dit dans le Livre blanc que les sociétés de financement seront comprises là-dedans.

Le président: Elles s'y trouveront aussi?

M. Hoffman: Oui. Par exemple, GMAC Acceptance fournit des prêts aux gens qui ont acheté des voitures General Motors de la même manière qu'une banque fournit un prêt à un particulier.

On peut lire dans le Livre blanc que, pour être traitée comme un établissement financier, une entreprise doit avoir comme activité principale les services financiers. Si, en général, 50 p. 100 ou plus de l'activité d'une entreprise représente des services financiers selon la définition qui est donnée de cette expression, ces règles additionnelles s'y appliquent.

On peut aussi lire dans le Livre blanc que certains établissements échappent à ces règles, en particulier les sociétés de portefeuille, les entreprises de capital de risque et les régimes de revenu différé, tels que les régimes de pension de retraite et les régimes enregistrés d'épargne-retraite. On peut se demander si, dans certains cas, certains de ces derniers fournissent des services financiers de la même manière que tous les autres, et la réponse est affirmative. Il n'est pas dit, dans le Livre blanc, pourquoi ces régimes ne relèvent pas des règles en question. A mon

[Text]

of value-added tax from them anyway, because holding companies basically do not pay a lot of wages and salaries.

The Chairman: How about pension plans?

Mr. Hoffman: Pension plans, yes, you could. The white paper is silent on that. In theory they should be. The consequence of exemption is that if you are a pension plan and you pay somebody a brokerage fee when you go out to buy the securities you hold as part of your plan, you will not be able to get a tax credit for taxes paid on brokerage fees.

Essentially, you are treating them as the end of the line. It may be that there are certain compliance costs involved here too. Do you really want to go out and apply all of these complex rules to every deferred income plan in the country? As it stands now, this is pretty narrow.

Mr. Cassidy: It does not sound on the face of it as though the deferred income plan will account for a great deal of loss of tax base.

Mr. Hoffman: No. No.

Mr. Cassidy: Essentially, it is a fairly pure kind of thing. The money is there, it has to be put somewhere, and it is likely going to be put into a financial institution. They will be looking around for the best yields, and so on. But as for the financial institutions, you will then pick it up on their spreads.

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Mr. Hoffman: Right. You should keep in mind that by narrowing the number and types of institutions here, you are also narrowing the amount of compliance problems for the smaller institutions that might be engaged in quasi-financial services.

I would estimate that only five to six thousand taxpayers would be subject to these rules, as opposed to 1.5 to 2 million for the general rules. So if you are only looking at five to six thousand taxpayers, it is a different order of magnitude than including every holding company and deferred income plan in the country. There are a lot of holding companies in Canada, but it is not clear that they have produced very much in the way of value added. Anyway, think about that.

Mr. Cassidy: In effect, this has something to do with any institution that is taking deposits, gathering investment funds, and then re-lending them, and performing, therefore, a function of intermediation. It is going to get caught.

Mr. Hoffman: Yes.

Mr. Cassidy: The holding companies would be seen more as being either passive or active, but active as the instrument of a Conrad Black, or of a Paul Desmarais, or someone like that and in a different category.

[Translation]

sens, cela peut s'expliquer par divers facteurs. Tout d'abord, on n'en retirerait probablement pas beaucoup de taxe sur la valeur ajoutée, de toute façon, puisque les sociétés de portefeuille, en définitive, ne dépensent pas beaucoup en rémunération.

Le président: Qu'en est-il des régimes de pension?

M. Hoffman: Dans le cas des régimes de pension, oui, cela pourrait arriver. Il n'en est pas question dans le Livre blanc. Théoriquement, les régimes devraient être soumis aux règles. L'exonération a pour conséquence qu'un régime de pension versant des frais de courtage pour l'achat de valeurs détenues dans le cadre du régime ne pourra pas obtenir de crédit fiscal à l'égard des taxes payées sur les frais de courtage.

Au fond, on traite ces entités comme les derniers utilisateurs. Peut-être aussi y a-t-il ici des coûts d'application. Veut-on vraiment appliquer toutes ces règles complexes à tous les régimes de revenu du pays? Selon la situation actuelle, la définition est plutôt étroite.

M. Cassidy: A première vue, il ne semble pas que le régime de revenu différé rétrécira beaucoup l'assiette fiscale.

M. Hoffman: Non.

M. Cassidy: Au fond, c'est plutôt simple. L'argent est là, il faut le placer quelque part, et il est probable que ce sera dans un établissement financier. On recherchera le meilleur rendement possible. Mais pour ce qui est des établissements financiers, la taxe s'appliquera à leurs écarts.

M. Hoffman: Vous avez raison. Il ne faut pas oublier qu'en diminuant le nombre et les types d'établissements, on diminue aussi le nombre des problèmes d'application dans le cas des petites institutions qui peuvent fournir des services quasi financiers.

A mon sens, cinq à six mille contribuables seulement seraient soumis à ces règles, comparativement à 1,5 à 2 millions dans le cas des règles générales. De cinq à six mille contribuables, c'est un ordre de grandeur bien différent de la totalité des sociétés de portefeuille et des régimes de revenu différé du pays. Il existe beaucoup de sociétés de portefeuille au Canada, mais il est difficile de savoir si elles ont produit beaucoup de valeur ajoutée. Je laisse cela à votre réflexion.

M. Cassidy: En réalité, cela intéresse tous les établissements qui reçoivent des dépôts, qui recueillent des fonds de placement et qui prêtent à leur tour ces ressources, en jouant ainsi un rôle d'intermédiaire. C'est là que la taxe s'appliquera.

M. Hoffman: Oui.

M. Cassidy: Les sociétés de portefeuille seraient considérées davantage comme ou bien passives, ou bien actives, mais actives entre les mains d'un Conrad Black ou d'un Paul Desmarais, et d'une catégorie différente.

[Texte]

Mr. Hoffman: Yes. The white paper again is silent. I am just casting some ideas as to why this treatment might be as it is.

Return now to the specifics of the margin calculation, pages 4-18 to 4-19. This margin calculation would be applied to everybody who would be considered a financial institution—that is to say, it is common to insurers, banks, trust companies and so on. To give you an idea of some of the inclusions and deductions in this margin, you see all interest income measured on an accrual basis—dividend income, gains from securities when they are realized, discounts, premiums, gains realized in debt redemption, and foreign exchange gains. You would also presumably want to include imputations made on certain low-interest or low-dividend paying investments.

For example, in the Income Tax Act we have a rule in section 80.4 that an imputation is created where a financial institution offers a loan to one of its employees at an artificially low interest rate. If you think about that for a second, if a bank offered an employee a loan at 0%, he would end up getting a negative margin if he did not include the imputed amount in its taxable sales because it presumably has a cost of funds, so the tax base would be zero minus, say, 10%, or -10%.

Unless you included the true value of the loan as a taxable sale, you would never get a margin. So these amounts, these imputations in the last line that we perform for income tax purposes, and that every financial institution has a handle on, would be included as a taxable sale.

Once again I should return to this point that it is not interest, dividend and gains per se that are taxed. They are taxed, and then relief is provided on page 4-19 for interest expense, premiums, discounts, losses and so on. So they are only used for purposes of constructing the tax margins.

Mr. Cassidy: I can see that if a financial institution is making an economic loss, but suppose in the end all its expenses are a loss and it winds up lending out money at exactly the same rate it is taking it in. Then under those circumstances, it would be entitled to a refund, although the refund would only be to the extent of the credits that would not be related.

Mr. Hoffman: That is correct.

Mr. Cassidy: A few years ago the credit unions got stuck with costly money and they could not rent the money out at that rate. Suppose they are paying 12% on their money, and lending it out at 10%.

Mr. Hoffman: Some of that effect is smoothed because this tax calculation, for compliance reasons, is only done annually if you are a financial institution.

[Traduction]

M. Hoffman: Oui. Là encore, il n'en est pas question dans le Livre blanc. Je ne fais qu'exprimer des hypothèses sur les raisons d'une telle situation.

Revenons aux particularités du calcul de la marge, pages 4-18 et 4-19. Ce calcul de la marge s'appliquerait à quiconque est considéré comme une institution financière—c'est-à-dire aux assureurs, aux banques, aux sociétés de fiducie, et le reste. Pour avoir une idée de certains des éléments inclus et des déductions qui s'appliquent à cette marge, on retrouve tous les intérêts créditeurs, calculés en comptabilité d'exercice, les revenus de dividendes, les gains en capital lorsqu'ils sont réalisés, les escomptes, les primes, les gains réalisés sur le remboursement de créances et les gains de change. Sans doute voudrait-on aussi inclure les gains théoriques découlant de certains placements à intérêts réduits ou à dividendes réduits.

Par exemple, on trouve dans la Loi de l'impôt sur le revenu, à l'article 80.4, qu'un gain théorique est créé lorsqu'un établissement financier offre un prêt à un de ses employés à un taux d'intérêt réduit artificiellement. En y réfléchissant, on constate que si une banque offrait à un employé un prêt à 0 p. 100, l'employé obtiendrait à la fin une marge négative s'il n'incluait pas le gain théorique dans ses ventes taxables, car on peut supposer que les fonds en question comportent un coût, de sorte que l'assiette fiscale serait de zéro moins 10 p. 100, par exemple, soit de -10 p. 100.

Si l'on n'inclut pas la valeur véritable du prêt comme vente taxable, on n'obtient pas de marge. Par conséquent, ces montants, ces valeurs théoriques qu'on trouve à la dernière ligne du calcul de l'impôt sur le revenu, et que contrôle chaque établissement financier, seraient inclus au titre d'une vente taxable.

Je le répète: ce n'est ni l'intérêt, ni le dividende, ni les gains en soi qui sont taxés. La taxe est appliquée, puis il y a les déductions indiquées à la page 4-19, c'est-à-dire les intérêts débiteurs, les primes, les escomptes, les pertes, et le reste. Ils servent donc uniquement aux fins d'établir les marges fiscales.

M. Cassidy: Je comprends cela dans le cas où un établissement financier subit une perte économique, mais supposons que, en fin de compte, toutes ses dépenses sont une perte et qu'il finit par prêter de l'argent exactement au taux auquel il l'a emprunté. Il aurait alors droit à un remboursement, quoique le remboursement ne pourrait pas dépasser la valeur des crédits non connexes.

M. Hoffman: C'est exact.

M. Cassidy: Il y a quelques années, les caisses de crédit ont dû payer leur argent cher et n'ont pas pu le prêter à ce taux. Supposons qu'elles paient leur argent 12 p. 100 et qu'elles le prêtent à 10 p. 100.

M. Hoffman: Une partie de cette situation est corrigée, puisque ce calcul de la taxe, pour des raisons d'application, ne se fait qu'une fois par année dans le cas des établissements financiers.

[Text]

Another example like yours is investment dealers. Frequently the margin on a week-to-week or a monthly basis is negative, but over the course of the year, if it does not stay positive, the investment dealer or the credit union is not going to be in business for very long.

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Mr. Cassidy: Does the taxpayer, the treasury, have to pay back, if over the course of a year a company has been borrowing at 12% and lending at 10%?

Mr. Hoffman: Yes.

Mr. Friedman: That is really not different from the case of a wholesaler selling to a retailer for \$12. The government gets its 96¢ VAT. If the company then resells the goods for \$5 instead of \$12 because it has lost some value, the government, which at one point had 96¢, now only has 40¢ tax.

Mr. Cassidy: But no tax is payable on the interest earned. Let us say that I was the little old widow lady who would put in \$100,000 at 12%. There is no additional tax added to that, because the tax only applies to the spread.

Mr. Hoffman: Right.

Mr. Cassidy: But if it is a negative spread, this means that you are generating a credit for the financial institution, when no tax had previously been paid.

Mr. Hoffman: That is right. That is a perverse result. It is not likely that this perverse result will go on forever. Since it is an annual calculation, presumably that effect is smoothed some.

The Chairman: What do you mean when you say it allows for an equity fund?

Mr. Hoffman: That is one of the most complicated things in the proposal, which I have cautiously left to the end of the presentation. Maybe, with the chairman's permission, we could return to that.

The Chairman: All right.

Mr. Hoffman: Let us turn again to insurance, briefly. Insurers provide risk-pooling services. Earlier we said that for a term insurance product, that is to say, an insurance product without a savings element, you would simply measure that by the difference between premiums and claims. The net result would be what actuaries call a loading factor; that is, an amount representing funds to cover expenses and wages and profits.

The Chairman: For term insurance, it is measured between premiums and claims. What about your investment income? It does not matter what kind of insurance company you are. A term insurance company has an investment income because of that premium.

[Translation]

Il y a un exemple qui ressemble au vôtre; c'est celui des courtiers en valeurs. Il arrive souvent que, d'une semaine à l'autre, ou d'un mois à l'autre, la marge soit négative, mais pour toute l'année, si elle ne demeure pas positive, le courtier en valeurs ou la caisse de crédit ne pourra pas maintenir son activité bien longtemps.

M. Cassidy: Le contribuable, le Trésor, doit-il rembourser si, au cours d'une année, une société a emprunté à 12 p. 100 et prêté à 10 p. 100?

M. Hoffman: Oui.

M. Friedman: En réalité, c'est la même situation que celle d'un grossiste qui vend une marchandise 12\$ à un détaillant. Le gouvernement perçoit sa TVA de 96c. Si la société revend ensuite la marchandise 5\$ au lieu de 12\$ parce que la marchandise en question a perdu de sa valeur, le gouvernement, qui avait déjà perçu une taxe de 96c., ne reçoit plus maintenant que 40c.

M. Cassidy: Mais il n'y a pas de taxe à payer sur l'intérêt gagné. Prenons le cas d'une veuve âgée qui place 100,000\$ à 12 p. 100. Il n'y a pas alors de taxe sur la valeur ajoutée, car la taxe s'applique uniquement à l'écart.

M. Hoffman: C'est exact.

M. Cassidy: Mais s'il s'agit d'un écart négatif, vous créez un crédit pour l'établissement financier lorsqu'il n'avait pas été payé de taxe antérieurement.

M. Hoffman: C'est exact. C'est là un résultat paradoxal. Il est peu probable que ce résultat paradoxal se maintiendra en permanence. Puisqu'il s'agit d'un calcul annuel, on peut supposer que cet effet sera quelque peu neutralisé.

Le président: Que voulez-vous dire lorsque vous parlez d'autoriser un fonds en avoir propre?

M. Hoffman: C'est là un des éléments les plus complexes de la proposition. J'ai prudemment gardé cela pour la fin de l'exposé. Avec la permission du président, nous pourrions y revenir.

Le président: D'accord.

M. Hoffman: Revenons quelque peu sur la question de l'assurance. Les assureurs fournissent des services de mise en commun des risques. Nous avons dit plus tôt que dans le cas d'une assurance à terme, c'est-à-dire une assurance sans élément d'épargne, on mesurerait tout simplement la différence entre les primes et les créances sur police. Le résultat net serait ce que les actuaires appellent un facteur de charge, c'est-à-dire un montant représentant les fonds nécessaires au paiement des dépenses, de la rémunération et des profits.

Le président: Dans le cas de l'assurance à terme, la mesure porte sur la différence entre les primes et les créances sur police. Qu'en est-il du revenu des investissements? Peu importe de quel genre de compagnie d'assurance il s'agit. Une compagnie d'assurance à terme

[Texte]

Mr. Hoffman: If the chairman would turn to the second and third bullets on that page, I make exactly the point that he has just raised. Claims are not paid immediately after premiums are received. For example, auto insurance premiums paid today may not be paid out as claims until one day or a year later, on average. For liability insurance, premiums received today may not be paid on a claim for 15 or 20 years. This gives rise to a delay between the receipt and the payment of claims.

What does an insurer do with the premiums in the intervening period? The insurer buys financial assets, and earns investment income that is used to meet its obligations for paying claims in the future. Hence, it is crucial that both the underwriting and the investment account of an insurer are included in an insurer's tax base.

So at the bottom, for both P and C and life insurance companies, the investment margin on the previous two pages is included in the calculation, as is the underwriting account.

Additional deductions are permitted for the costs of funds, the cost of equity, and for the growth in reserves. The growth in insurance reserves has a offsetting effect for the inclusion of investment income. There is no exact parallel between an insurance company and a bank. Insurance companies do not take deposits, so the cost of funds is not represented by interest paid to depositors. It can be shown that the cost of funds is represented by the change in the size of an insurer's reserves.

• 1730

Turn to page 4-21. What I have outlined here is this underwriting account calculation. This underwriting account calculation, like the investment account, parallels almost exactly the calculations these companies are required to make for income tax purposes.

In fact, what you see at the top, inclusions in terms of the fee income, premiums, claim recoveries, commissions, annuity considerations, and then the appropriate deductions in the form of claims, annuity claims paid out, experience rating refunds, commissions paid to agents and the like... This underwriting calculation, at least the measurement of the elements of the underwriting calculation, are exactly the same as they are for income tax purposes.

Similarly, for banks the measurements of inclusions and deductions in the intermediation margin calculation are exactly the same as they are for income tax purposes, hence reducing the compliance cost to financial institutions.

[Traduction]

réalise un revenu sur les investissements à cause de cette prime.

M. Hoffman: Si le président veut bien examiner les deuxième et troisième alinéas de cette page, on y traite exactement du point qu'il vient de soulever. Les indemnités ne sont pas versées immédiatement après la réception des primes. Par exemple, les primes de l'assurance automobile payées aujourd'hui seront payées en indemnités seulement le lendemain ou un an plus tard, en moyenne. Dans le cas de l'assurance-responsabilité, les primes reçues aujourd'hui pourront être versées en indemnités dans 15 ou 20 ans seulement, sans doute. Cela crée un décalage entre la réception des primes et le versement des indemnités.

Dans l'intervalle, qu'est-ce que l'assureur fait des primes? Il achète des éléments d'actif financier et il obtient des revenus de placement qui lui permettront de s'acquitter du paiement des indemnités dans l'avenir. Il est donc essentiel que le compte de l'assurance et le compte des investissements de l'assureur soient tous les deux inclus dans l'assiette fiscale de l'assureur.

C'est pourquoi, à la fin, tant pour les assureurs généraux (biens et risques divers) que pour les compagnies d'assurance-vie, la marge d'investissement des deux pages précédentes est incluse dans le calcul, tout comme le compte d'assurance.

Des déductions additionnelles sont autorisées pour le coût des fonds, le «coût des fonds propres», et la hausse des réserves sur polices. Cette hausse neutralise quelque peu l'inclusion du revenu des investissements. Il n'existe pas de correspondance exacte entre une compagnie d'assurance et une banque. Les compagnies d'assurance n'acceptent pas de dépôts, de sorte que le coût des fonds n'est pas représenté par l'intérêt versé aux déposants. On peut montrer que le coût des fonds est représenté par le changement de la taille des réserves de l'assureur.

Passons à la page 4-21. Ce que j'ai présenté ici, c'est le calcul des contrats d'assurance. Comme pour les placements, il ressemble comme deux gouttes d'eau aux calculs que les entreprises doivent faire aux fins de l'impôt sur le revenu.

En effet, ce que vous voyez en haut, ce sont les éléments inclus (droits reçus, primes, recouvrement d'indemnités, commissions, capital constitutif de rente) et ensuite les déductions appropriées (indemnités, rentes payées, ristournes sur résultats techniques, commissions versées aux agents, etc.). Ce calcul, ou du moins la mesure des éléments du calcul des contrats d'assurance, est exactement le même qu'aux fins de l'impôt sur le revenu.

De même, pour les banques, les éléments inclus et les déductions dans le calcul de la marge d'intermédiation sont exactement les mêmes qu'aux fins de l'impôt sur le revenu, ce qui diminue les coûts d'observation pour les institutions financières.

[Text]

So the upshot of the calculation made on page 4-21 is only what the actuaries refer to as a net loading inherent in the provision of the policy; it actually attracts tax.

Now, if we could turn to page 4-22, the next crucial point to recognize is that since this is tax only in the consumption of services in Canada, for insurance services you can only apply the tax to the loading component of insurance policies sold on risks situated in Canada. So if an insurance company sells a policy on a risk in the United States, that would be zero rated.

However, since we include this investment margin in the insurer's tax-base calculation, and since that is done on a worldwide basis, we are faced with a problem of apportioning that investment account calculation to a fraction representing the margin earned on policies written on risks in Canada. This problem will be faced by all financial institutions.

For banks, for example, what we have done, you will recall, is this worldwide calculation with investment inflows and outflows, and now what the white paper is proposing is that once you have done your aggregate margin calculation, you then apportion this by the ratio of foreign source revenue—interest, dividends and financial fees—by total revenue. If you look at that closely, what that formula says at the bottom of page 4-22, is: We are going to make an ad hoc calculation here and assume that the borrower bears the tax.

Now, if I can return to the chairman's comments earlier, the chairman was quite right. There is some ad hockery involved here, because think for a moment: Who really is consuming the service? Is it not in part both the depositor as well as the borrower? The answer is probably yes.

What the white paper's model does is use this apportionment rule as an ad hoc method of reducing the margin to the value of the services consumed in Canada. Okay?

The Chairman: No, not okay at all. It is horrendously complicated—

Mr. Hoffman: Why is it complicated? It is the sum of three numbers divided by the sum of three other numbers.

Mr. Weyman: Those numbers, I believe, are all in fact obtained anyway, for income tax purposes; they are all part of—

Mr. Hoffman: All of these numbers, Mr. Chairman, can be pulled right off a financial institution's tax returns and financial statements. In fact, upon close inspection of the rules outlined here, this has been designed to very closely follow the calculation used in the corporate income tax. And indeed, as we used to say about the BTT,

[Translation]

Le résultat du calcul présenté à la page 4-21 ne représente donc que ce que les actuaires appellent les frais financiers nets inhérents à la fourniture de la police d'assurance; c'est le montant sur lequel la taxe est en réalité imposée.

Passons maintenant à la page 4-22 pour aborder un autre point crucial: puisqu'il s'agit d'une taxe imposée uniquement sur la consommation de services au Canada, pour les services d'assurance, on ne peut appliquer la taxe qu'aux frais financiers concernant les polices d'assurance vendues pour des risques situés au Canada. Si une compagnie d'assurance vend une police pour un risque situé aux États-Unis, le taux de la taxe sera de zéro.

Toutefois, étant donné que cette marge sur les placements est incluse dans le calcul de l'assiette fiscale de l'assureur et étant donné que cela s'applique à l'échelle internationale, nous sommes confrontés à un problème de répartition de ce calcul sur les placements à une fraction représentant la marge obtenue sur les polices souscrites pour des risques situés au Canada. Toutes les institutions financières seront confrontées à ce problème.

Pour les banques, par exemple, vous vous souviendrez que nous avons fait un calcul à l'échelle mondiale avec les entrées et sorties de placements, et le Livre blanc propose maintenant, une fois terminé le calcul de votre marge brute, de faire la répartition en suivant le ratio des recettes d'origine étrangère—intérêts, dividendes et frais financiers—le total des recettes. En examinant les choses de près, on constate que la formule au bas de la page 4-22 sous-entend que l'on va faire un calcul approximatif en supposant que l'emprunteur supporte la taxe.

Pour en revenir maintenant aux observations antérieures du président, ce dernier avait tout à fait raison. Il y a là un calcul approximatif, car il faut se demander qui consomme vraiment le service. N'est-ce pas en partie à la fois le dépositaire et l'emprunteur? La réponse est vraisemblablement affirmative.

Le modèle donné dans le Livre blanc utilise cette règle de répartition comme méthode approximative visant à réduire la marge à la valeur des services consommés au Canada. D'accord?

Le président: Non, pas d'accord du tout. Tout cela est affreusement compliqué. . .

M. Hoffman: Pourquoi est-ce compliqué? C'est la somme de trois chiffres divisée par la somme de trois autres chiffres.

M. Weyman: Si je ne m'abuse, ces chiffres sont, de toute façon, tous calculés aux fins de l'impôt sur le revenu. Ils font tous partie de. . .

M. Hoffman: Monsieur le président, on peut tirer tous ces chiffres directement des déclarations d'impôt et des états financiers d'une institution financière. En effet, si l'on regarde bien les règles énoncées ici, elles ont été conçues de façon à suivre de très près le calcul utilisé pour l'impôt sur le revenu des sociétés et, comme nous le

[Texte]

we should be able to ideally draw all these numbers off the books of account.

• 1735

The Chairman: What you have is your foreign source revenue over your total revenue to give you the fraction. You have your total financial revenue less total financial cost.

Mr. Hoffman: I need those numbers to arrive at a net income for book purposes. Banks currently have to supply all these numbers to the Superintendent of Financial Institutions, many of them on a monthly or sometimes even on a weekly basis. All these figures are provided in the financial institutions' tax returns.

I believe you will find that the compliance costs are not there for the larger financial institutions. Undoubtedly, they will be—

The Chairman: Having done this calculation on an annual basis, off the financial statement, to whom do you pass it on? You collect the tax, and then what do you do?

Mr. Hoffman: This kind of calculation will behoove financial institutions to sit down and uncover methods to try to recover the tax. I do not think anybody disputes that problem.

Mr. Friedman: The simple answer is wherever the market can bear it.

Mr. Hoffman: Many service fees are simple, such as the safety deposit box fee of \$10, just to fix the tax. It is more complex on margins. We know the spreads are very narrow in wholesale market. The bank might earn 20 or 30 or 40 basis points in the wholesale market, and there is no way on earth you are going to be able to pass this tax on in that tight wholesale spread.

What they will do in fact is try to pass the tax on in the larger spreads earned on consumer, household and small business loans.

Mrs. Collins: You indicated earlier that most countries do not have this tax on financial services.

Mr. Hoffman: Yes, because they do not have a credit invoice method. If they do, you have a credit invoice method instead of this GST calculation.

Mrs. Collins: But they do have a form of a tax?

Mr. Hoffman: Some countries do have taxes on financial services, but they are not comprehensive. Nobody has a comprehensive tax like Canada has suggested in the white paper.

Mrs. Collins: What will that do to our competitiveness?

[Traduction]

disions pour la TTC, nous devrions idéalement pouvoir extraire tous ces chiffres des livres comptables.

Le président: Vous obtenez la fraction en divisant vos recettes d'origine étrangère par vos recettes totales. Il y a le total de vos recettes financières, moins le total de vos frais financiers.

M. Hoffman: J'ai besoin de ces chiffres pour obtenir un revenu net à des fins comptables. Les banques doivent actuellement fournir tous ces chiffres au Surintendant des institutions financières, très souvent tous les mois, et parfois même toutes les semaines. Tous ces chiffres figurent dans les déclarations d'impôt des institutions financières.

Vous constaterez qu'il n'y a pas de coûts d'observation pour les grosses institutions financières. Il ne fait pas de doute que...

Le président: Après avoir fait ce calcul sur une base annuelle en suivant les états financiers, à qui transmettez-vous les chiffres? Vous percevez la taxe et, ensuite, que faites-vous?

M. Hoffman: Ce type de calcul exigera que les institutions financières organisent des rencontres pour découvrir des méthodes visant à essayer de recouvrer la taxe. Je pense que personne ne conteste ce problème.

M. Friedman: La réponse est simple: là où le marché peut le supporter.

M. Hoffman: Il est facile d'imposer la taxe sur de nombreux frais de service, comme par exemple les frais de coffret de sûreté de 10\$. C'est plus compliqué sur les marges. Nous savons que les marges sont très étroites sur le marché de gros. La banque peut gagner 20 ou 30 ou 40 points sur le marché de gros, et il n'est absolument pas question de répercuter cette taxe sur cette marge de gros serrée.

En fait, les banques essaieront de répercuter la taxe sur les marges plus importantes réalisées sur les prêts à la consommation aux ménages et aux petites entreprises.

Mme Collins: Vous avez mentionné plus tôt que la plupart des pays n'ont pas de taxe sur les services financiers.

M. Hoffman: Oui, parce qu'ils n'ont pas de méthode des crédits et des factures. Dans le cas contraire, vous avez une méthode des crédits et des factures au lieu du calcul de la TBS.

Mme Collins: Mais ils appliquent une certaine taxe?

M. Hoffman: Certains pays ont des taxes sur les services financiers, mais elles ne sont pas générales. Personne n'a une taxe générale comme le Canada l'a proposé dans le Livre blanc.

Mme Collins: Quelle sera l'influence sur notre compétitivité?

[Text]

Mr. Hoffman: These apportionment rules are an attempt to reduce this margin to only that margin representing the value of services supplied in Canada. If a Canadian financial institution exports financial services, it is zero rated. At least that is what the rules attempt to do.

You will undoubtedly hear from the financial institutions just how wide or short of the mark these rules fall. I am not suggesting to the committee the rules are perfect, and in fact I have some disagreement with some of them, but this is what the white paper is attempting to do.

Like all other exports, financial services will be zero rated.

I will return shortly to the accompanying question: is this tax treatment adequate with respect to the importation of financial services? Will Canadian financial institutions be put at a disadvantage vis-à-vis—

The Chairman: People who are overseas.

Mr. Hoffman: Right. As I shall demonstrate, I think the current proposal is inadequate in meeting this. There may, however, be a solution.

The Chairman: We will have a tariff.

Mr. Hoffman: Briefly on page 4-23. Just as a bank will have to do this apportionment calculation—and just before I get to that, I said the compliance costs were probably low for the larger institutions, and I think that follows, because most of these numbers are readily available.

I believe there will at first be significant compliance costs for smaller financial institutions, namely caisses-populaires, credit unions and small trust companies. For insurance companies, you again have to create a rule for apportioning the value of the margin to just that for services provided in Canada. If these two formulas do not look too completely familiar, the committee dealt with this only a short time ago in their discussion of changes to the Canadian investment fund for resident and non-resident insurance companies in stage 1 of tax reform. These rules, while not precisely the same as those currently used in the income tax act, parallel them in a large degree.

• 1740

The white paper does not address whether or not the changes that have gone through, or are about to go through, for insurance companies pursuant to tax reform, would follow upon the implementation of the sales tax.

In the interest of time, I am not sure it is of benefit to look at page 4-24 on reinsurance.

[Translation]

M. Hoffman: Ces règles de répartition proportionnelle s'efforcent de réduire cette marge à la seule marge représentant la valeur des services fournis au Canada. Si une institution financière canadienne exporte des services financiers, le taux de taxe est de zéro. C'est tout du moins ce que les règles s'efforcent de faire.

Il va sans dire que vous entendrez parler des institutions financières, qui vous diront si ces règles sont loin ou près de la vérité. Je ne veux pas dire aux membres du Comité que les règles sont parfaites—je suis d'ailleurs en désaccord avec certaines d'entre elles—mais c'est ce que le Livre blanc s'efforce de faire.

Comme toutes les autres exportations, les frais financiers auront un taux de taxe de zéro.

Je reviens brièvement à la question connexe: ce traitement fiscal convient-il en ce qui concerne l'importation de services financiers? Les institutions financières canadiennes seront-elles désavantagées vis-à-vis. . .

Le président: Les gens qui sont à l'étranger.

M. Hoffman: Exact. Comme je vais vous le démontrer, la proposition actuelle n'est à mon avis pas appropriée à cet égard. Il pourrait cependant y avoir une solution.

Le président: Nous aurons un tarif douanier.

M. Hoffman: Regardons brièvement la page 4-23. Tout comme une banque devra effectuer ce calcul de répartition proportionnelle—et avant d'y arriver, j'ai déclaré que les coûts d'observation seraient probablement faibles pour les grosses institutions, et je pense que c'est le cas, car la plupart de ces chiffres sont déjà disponibles.

Au départ, les coûts d'observation seront à mon avis importants pour les petites institutions financières, notamment les caisses populaires, les caisses de crédit et les petites compagnies de fiducie. En ce qui concerne les compagnies d'assurance, il faut encore une fois établir une règle pour répartir proportionnellement la valeur de la marge pour les services fournis au Canada. Si ces deux formules ne vous semblent pas très familières, les membres du Comité les ont déjà abordées récemment lors de la discussion des modifications à apporter au Fonds de placement canadien, au stade un de la réforme fiscale, pour les compagnies d'assurance canadiennes et non résidentes. Bien que ces règles ne soient pas exactement les mêmes que celles qui sont utilisées dans la Loi de l'impôt sur le revenu, elles y ressemblent comme deux gouttes d'eau.

Le Livre blanc ne dit pas si, oui ou non, les changements qui sont intervenus ou qui sont sur le point d'intervenir pour les compagnies d'assurance, conformément à la réforme fiscale, suivront la mise en oeuvre de la taxe de vente.

Pour des raisons de temps, je ne pense pas qu'il soit utile d'examiner la page 4-24 portant sur la réassurance.

[Texte]

The Chairman: As a matter of fact, we are temporarily out of quorum.

Mr. Hoffman: There are a couple of critical questions.

The Chairman: I am wondering if we could solve a couple of the critical questions and come back to this tomorrow. I think we are—

Mr. Hoffman: Do you wish me to turn to them?

The Chairman: Yes. Yes.

Mr. Hoffman: We might then deal with the last two pages, 4-27 and 4-28. To return to the chairman's question of half an hour ago, what does one do if a financial institution uses equity funds in its margin in the provision of financial services?

The white paper has outlined two proposals to deal with this phenomenon. It suggests that you could allow a financial institution a deduction for dividends paid out to shareholders as a measure of the cost of equity funds used in, say, the provision of its loans. Or you could make an imputation. The white paper suggests that you could take the value of the financial institution's equity, say, for book purposes, multiply that by some prescribed rate, and allow it a deduction.

I think the latter solution would result in significant inequities, because the cost of capital to—

The Chairman: To suggest imputing dividends as a credit is crazy. You wind up with a situation where some financial company is trying to build up its capital. The Superintendent of Insurance would immediately penalize the hell out of them because they did not pay dividends.

Mr. Hoffman: I could not agree with the chairman more. I think on the first option the committee will hear a significant number of proposals against this one. On a conceptual basis, it simply does not measure adequately the opportunity cost of capital. Sometimes firms pay dividends, and sometimes they do not. After all, investors put their funds into financial institutions not only to earn dividends but also to earn capital gains.

As your chairman has outlined, Schedule B banks or banks in start-up positions are frequently asked by the Superintendent of Financial Institutions not to pay dividends so they can build up their capital base. Now you are going to turn around and penalize this guy for not paying dividends. I think it is the wrong way to go. A better way perhaps would be to use an imputation, not with a prescribed rate, but perhaps with a calculation that each institution could make to determine its own cost of funds on its equity base. In this way, you are at least giving some relief to the guy who has not paid dividends.

[Traduction]

Le président: D'ailleurs, nous n'avons provisoirement plus le quorum.

M. Hoffman: Il reste quelques questions importantes.

Le président: Je me demande si nous pourrions répondre à quelques-unes des questions importantes, et revenir à cela demain. Je pense que nous. . .

M. Hoffman: Voulez-vous que je les aborde?

Le président: Oui. Oui.

M. Hoffman: Nous pourrions peut-être alors passer aux deux dernières pages, 4-27 et 4-28. Pour revenir à la question posée par le président il y a une demi-heure, que faire si une institution financière utilise des fonds propres dans sa marge pour fournir des services financiers?

Le Livre blanc a énoncé deux propositions pour aborder cette situation. Il laisse entendre que l'on pourrait accorder à une institution financière une déduction pour les dividendes versés aux actionnaires pour tenir compte du coût des capitaux propres utilisés, disons, pour fournir ses prêts. Ou bien, on peut faire la répartition proportionnelle. Le Livre blanc propose de prendre la valeur des fonds propres de l'institution financière figurant, disons, dans les livres comptables, de la multiplier par un taux donné et de lui accorder une déduction.

Je pense que la deuxième solution entraînerait de graves injustices, car le coût des capitaux. . .

Le président: Il est complètement insensé de proposer une répartition proportionnelle des dividendes comme crédit. On finirait par se retrouver dans une situation où certaines sociétés financières essaieraient d'augmenter leur capital. Le Surintendant des assurances les pénaliserait immédiatement très sévèrement parce qu'elles n'auraient pas versé de dividendes.

M. Hoffman: Je suis entièrement d'accord avec le président. Je pense que les membres du Comité entendront à propos de la première option un grand nombre de propositions contre celle-ci. Sur le plan du concept, elle ne mesure tout simplement pas convenablement le coût d'option du capital. Certaines entreprises versent des dividendes et d'autres non. Après tout, les investisseurs mettent leur argent dans des institutions financières non seulement pour recevoir des dividendes, mais également pour réaliser des gains en capital.

Comme l'a souligné votre président, le Surintendant des institutions financières demande souvent aux banques de l'annexe B ou aux nouvelles banques de ne pas verser de dividendes afin de pouvoir augmenter leur capital. Maintenant, on va contourner la chose et pénaliser ces institutions pour n'avoir pas versé de dividendes. C'est la mauvaise voie à suivre. Un meilleur moyen consisterait peut-être à faire une répartition proportionnelle, non pas avec un taux donné, mais peut-être avec un calcul que pourrait faire chaque institution pour déterminer personnellement le coût des fonds sur ses capitaux

[Text]

The Chairman: The person who is not as well fixed financially has a higher cost of equity, so he does not pay as much tax.

Mr. Hoffman: That seems correct treatment.

The Chairman: This is a sales tax. I do not know who dreamed this stuff up.

Mr. Hoffman: It might come as some surprise to the chairman.

The Chairman: It would, would it?

Mr. Friedman: Remember, this is the only country that is trying this.

Mrs. Collins: My concern is that the government is going to be involved in everything.

Mr. Hoffman: It is not called the Leviathan for nothing. On page 4-28, as we said, the credits are obtained for tax paid into the P and C premiums. Life insurance premiums are not creditable.

• 1745

The Chairman: I am being left alone, Lorey. I think we are going to finish this.

Mr. Hoffman: May I remind the chairman that we are arriving at his favourite question. The white paper says that tax paid on life insurance premiums is not creditable because life insurance is treated as a payment in lieu of wages. I think the crucial flaw with the proposal lies in the third bullet on this page, namely that since the tax is done with the subtraction method for financial institutions, no credit is passed forward to the business customer.

In defence of the white paper, I have to admit that they recognize this is wrong, but the government has stated in the white paper that it has chosen to deny any form of credit on the grounds that the distortion is small and any credit is arbitrary. I think it is a crucial issue facing the committee in representations from industry.

I think there is a possibility of an import bias created by the present treatment. Some Canadian consumers and some firms may go offshore unless credit is provided, notwithstanding some problems with providing a credit. It would be ad hoc and difficult to justify the amount of the credit. Presumably you would only give a credit for funds used in the course of a taxable activity.

Would one have to trace the credit to funds used in the course of a taxable activity? This would pose a difficult problem for Revenue Canada. These problems notwithstanding, I think on this issue you will have to

[Translation]

propres. De cette manière, on accorde au moins un allègement à l'institution qui n'a pas versé de dividendes.

Le président: La personne qui n'a pas une aussi bonne assise financière subit un coût plus élevé de ses capitaux propres et ne paye donc pas autant de taxe.

M. Hoffman: Ce traitement semble équitable.

Le président: C'est une taxe de vente. Je ne sais pas qui a été pêcher cela.

M. Hoffman: Vous pourriez avoir une surprise, monsieur le président.

Le président: Vraiment?

M. Friedman: N'oubliez pas que le Canada est le seul pays à faire cet essai.

Mme Collins: Je m'inquiète de constater que le gouvernement va mettre son nez partout.

M. Hoffman: Ce n'est pas pour rien qu'on l'appelle le Léviathan. Comme nous l'avons dit à la page 4-28, les crédits sont obtenus pour les taxes payées sur les primes d'assurance générale. Les primes d'assurance-vie ne donnent pas droit à un crédit.

Le président: Lorey, je me retrouve tout seul, et je crois que nous allons mettre fin à la séance.

M. Hoffman: Puis-je vous rappeler, monsieur le président, que nous arrivons à votre question préférée? Le Livre blanc déclare que la taxe payée sur les primes d'assurance-vie ne donne pas droit à un crédit, car l'assurance-vie est considérée comme un versement en remplacement de frais de personnel. Le principal défaut de la proposition réside à mon avis au troisième point de cette page, à savoir que, puisque la taxe est calculée pour les institutions financières selon la méthode de la soustraction, aucun crédit n'est répercuté sur le client.

À la défense du Livre blanc, je dois admettre que les auteurs ont reconnu que la chose était erronée, mais le gouvernement a déclaré dans le Livre blanc qu'il avait choisi de refuser toute forme de crédit, soutenant que la distorsion est faible et que tout crédit est arbitraire. Les membres du Comité seront confrontés là à une question capitale lorsque viendront les représentations des institutions financières.

Le traitement actuel pourrait à mon avis accorder une préférence aux importations. Il se pourrait que certaines entreprises et certains clients canadiens se tournent vers l'étranger si on ne fournit pas un crédit, sans parler des problèmes rencontrés pour accorder un crédit. Le montant du crédit serait difficile à justifier, et son calcul serait approximatif. Je présume que l'on n'accorderait un crédit que pour les fonds utilisés dans le cadre d'une activité taxable.

Faudrait-il affecter le crédit aux fonds utilisés dans le cadre d'une activité taxable? Revenu Canada se retrouverait là devant un problème délicat. Nonobstant tous ces problèmes, je pense que vous devrez aborder

[Texte]

address this very carefully. I predict that this aspect of the tax on financial institutions may stand or fall on the last element.

The Chairman: It would seem to me, that the tax on financial institutions will be left to the fourth stage, a sales tax. With that I suggest we adjourn.

[Traduction]

toute cette question très prudemment. Je prévois que cet aspect de la taxe sur les institutions financières pourrait résister ou s'écrouler à cause de ce dernier élément.

Le président: Il me semble que la taxe sur les institutions financières en restera au quatrième stade, celui d'une taxe de vente. Cela dit, je propose de lever la séance.



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HOUSE OF COMMONS

Issue No. 137

Thursday, January 28, 1988

Chairman: Don Blenkarn

CHAMBRE DES COMMUNES

Fascicule n° 137

Le jeudi 28 janvier 1988

Président: Don Blenkarn

*Minutes of Proceedings and Evidence of the
Standing Committee on*

**Finance and
Economic Affairs**

*Procès-verbaux et témoignages du Comité
permanent des*

**Finances et des
affaires économiques**

RESPECTING:

Pursuant to Standing Order 96(2), consideration of
the White Paper and other related documents on
Tax Reform—Stage II (Sales Tax)

CONCERNANT:

En vertu de l'article 96(2) du Règlement, étude du
Livre blanc et autres documents connexes, ayant
trait à la réforme fiscale—deuxième étape (Taxe de
vente)



second Session of the Thirty-third Parliament,
986-87-88

Deuxième session de la trente-troisième législature,
1986-1987-1988

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ECONOMIC AFFAIRS

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(Quorum 7)

Le greffier du Comité
Marie Carrière

MINUTES OF PROCEEDINGS

THURSDAY, JANUARY 28, 1988
(207)

[Text]

The Standing Committee on Finance and Economic Affairs met at 9:44 o'clock a.m. this day, in Room 112-N, Centre Block, the Chairman, Don Blenkarn, presiding.

Members of the Committee present: Don Blenkarn, Michael Cassidy, Mary Collins, Murray Dorin, Robert Layton, George Minaker and Norman Warner.

In attendance: From the Committee's Research Staff: H. Bert Waslander, Research Director. David Weyman, C.A., Peat Marwick; Andy J. Friedman, C.A., Peat Marwick; Lorey A. Hoffman, Ph.D., Peat Marwick; Peter H. Wood, C.A., Clarkson Gordon, Consultants.

In accordance with its mandate under Standing Order 96(2), the Committee resumed consideration of the White Paper and other related documents on Tax Reform—Stage II (Sales Tax) tabled in the House of Commons on Thursday, June 18, 1987. (*See Minutes of Proceedings and Evidence, Monday, January 25, 1988, Issue No. 133.*)

The Research Staff made a presentation and answered questions.

At 10:55 o'clock a.m., the sitting was suspended.

At 11:01 o'clock a.m., the sitting was resumed.

Questioning resumed.

At 11:59 o'clock a.m., the Committee adjourned to the call of the Chair.

Marie Carrière
Clerk of the Committee

PROCÈS-VERBAL

LE JEUDI 28 JANVIER 1988
(207)

[Traduction]

Le Comité permanent des finances et des affaires économiques se réunit aujourd'hui à 9 h 44, dans la pièce 112-N de l'Édifice du centre, sous la présidence de Don Blenkarn, (*président*).

Membres du Comité présents: Don Blenkarn, Michael Cassidy, Mary Collins, Murray Dorin, Robert Layton, George Minaker et Norman Warner.

Aussi présents: Du personnel de recherche du Comité: H. Bert Waslander, directeur de la recherche. David Weyman, c.a., *Peat Marwick*; Andy J. Friedman, c.a., *Peat Marwick*; Lorey A. Hoffman, ph.d., *Peat Marwick*; Peter H. Wood, c.a., *Clarkson Gordon*, conseillers.

Conformément au mandat que lui confie le paragraphe 96(2) du Règlement, le Comité examine de nouveau le Livre blanc et autres documents connexes ayant trait à la réforme fiscale—deuxième étape (Taxe de vente), documents déposés sur le bureau de la Chambre des communes le jeudi 18 juin 1987. (*Voir Procès-verbaux et témoignages du lundi 25 janvier 1988, fascicule n° 133.*)

Le personnel de recherche donne un exposé et répond aux questions.

À 10 h 55, le Comité interrompt les travaux.

À 11 h 01, le Comité reprend les travaux.

Le Comité poursuit son interrogatoire.

À 11 h 59, le Comité s'ajourne jusqu'à nouvelle convocation du président.

Le greffier du Comité
Marie Carrière

EVIDENCE

[Recorded by Electronic Apparatus]

[Texte]

Thursday, January 28, 1988

• 0944

The Chairman: Pursuant to Standing Order 96.(2), we are considering the white paper on tax reform, stage two. Our witnesses are Andy Friedman, Lorey Hoffman, and Peter Wood, as before, and we even have an agenda today. Are we still on the agenda?

• 0945

Mr. Andy J. Friedman (Committee Consultant): Yes.

The Chairman: We are on the agenda.

Mr. Friedman: Because of the shortness of the meeting yesterday afternoon, we are going to spend about half an hour talking about taxation of financial institutions. Then we will get back to finishing transportation, a topic we were half-way through the day before. We will finally end up with transitional issues, a topic on which the white paper is very silent, and continue to a quick look at national sales taxes again. Then we will summarize at the end and look at the choices.

Lorey left off with a critical issue last night; namely, that here we have a tax on financial institutions with one missing link—namely, a credit to businesses.

Mr. Lorey A. Hoffman (Committee Consultant): I would just like to look at page 4-26, and then eventually turn to page 4-28, a couple of elements that were left out in yesterday's discussion.

As was discussed last evening, insurance companies pay premium taxes to the provincial governments and in several instances also pay capital taxes. These premium and capital taxes, which would be deductible under the corporate income tax, would not be creditable for GST purposes, as, like other taxes, they form part of value added.

There is a second group of financial institutions, which we have not talked about. I could call these flow-through intermediaries, and these would include things like segregated funds of life insurance companies, mutual funds, mutual fund trusts, to the extent that they pay wages and salaries.

The Chairman: Private financial management companies.

Mr. Hoffman: Yes. The treatment of these savings vehicles will be such that they will form an

TÉMOIGNAGES

[Enregistrement électronique]

[Traduction]

Le jeudi 28 janvier 1988

Le président: En vertu du paragraphe 96.(2) du Règlement, nous poursuivons nos travaux sur le Livre blanc sur la réforme fiscale, deuxième étape. Nous accueillons nos trois mêmes témoins, soit Andy Friedman, Lorey Hoffman et Peter Wood, et nous avons même un ordre du jour. Le suivons-nous toujours?

M. Andy J. Friedman (consultant auprès du Comité): Oui.

Le président: Nous suivons l'ordre du jour.

M. Friedman: Puisque notre réunion d'hier après-midi a été écourtée, nous allons prendre une demi-heure environ pour parler de la taxation des institutions financières. Nous terminerons ensuite l'examen entrepris avant-hier du secteur des transports. Enfin, nous aborderons la question des mesures de transition, sujet sur lequel le Livre blanc est à peu près muet, et nous discuterons ensuite brièvement de la taxe de vente nationale. Nous ferons ensuite une récapitulation avant d'évaluer les choix qui s'offrent au gouvernement.

À la fin de la séance d'hier soir, Lorey Hoffman traitait d'une question d'importance critique, à savoir que nous percevons maintenant une taxe sur les institutions financières sans toutefois accorder de crédit aux entreprises.

M. Lorey A. Hoffman (consultant auprès du Comité): J'aimerais aborder quelques éléments que nous n'avons pas touchés au cours de la discussion d'hier et je vous invite donc à vous reporter à la page 4-26, après quoi nous passerons à la page 4-28.

Comme nous l'avons dit hier soir, les compagnies d'assurance versent aux gouvernements provinciaux des taxes sur les primes et, dans plusieurs cas, des taxes sur le capital. Ces taxes, qui seraient déductibles sous le régime de l'imposition des revenus des sociétés, ne donnent pas droit à un crédit aux fins de la TBS puisque, comme c'est le cas d'autres taxes, elles font partie de la valeur ajoutée.

Il y a un deuxième groupe d'institutions financières dont nous n'avons pas parlé. Il s'agit des intermédiaires parmi lesquels il faut compter compagnies d'assurance-vie qui ont des fonds réservés, les fonds communs de placements et les fonds communs de placements en fiducie, dans la mesure où ils paient des salaires et autres formes de rémunération.

Le président: Les sociétés de gestion financière privées.

M. Hoffman: Oui. Les intermédiaires qui offrent de tels services d'épargne pourront réaliser une marge

[Texte]

intermediation margin, but they will be allowed a deduction for all the payments they make to their unit holders. Essentially they will be treated in the same flow-through fashion as they are under the Income Tax Act. So if they pay any salaries, in effect the only tax base that is left is any management fee, and they would of course be allowed to take credits for purchases of other goods and services like anything else.

The Chairman: I happen to have a major shareholding in one of them, and we collect management fees, which is nice, and we also collect commissions and so on, but that is really the income of the company. Are you going to have an additional income tax? It is pretty hard to segregate. How do you treat the management fees as segregated from the rest of the income operation?

Mr. Hoffman: At the end of the day, with this treatment, the management fee would attract tax and the fund would be allowed a deduction for purchases of paper, tables, and chairs and the like, like anyone else. So, in effect, you would only get the value-added inherent in the management fee, just as you would tax a trust company or someone else.

The Chairman: So it is on your fee income, then?

Mr. Hoffman: Yes, in essence.

The Chairman: But not on your intermediary income?

Mr. Hoffman: No, because there are a lot of—

The Chairman: These companies tend also to have some capital, and they also operate and invest their own dough. Often they mix their own dough up with their clients' dough.

Mr. Hoffman: Yes.

The Chairman: In other words, they may syndicate a mortgage, for example, and wind up holding a piece of it themselves.

Mr. Hoffman: Well, the treatment, as outlined in the—

The Chairman: I just wonder how you handle that. They are charging their clients a management fee for putting them in the deal.

Mr. Hoffman: Right.

• 0950

The Chairman: They obviously do not charge themselves a management fee for putting themselves in the deal. Investment income is not a matter of a sales tax.

Mr. Hoffman: That is correct.

Mr. Friedman: Is there not a parallel to your investing your own as a consumer and perhaps doing consulting

[Traduction]

bénéficiaire sur leurs services d'intermédiation et auront droit de déduire tous les paiements faits à leurs détenteurs de parts. Ils auront droit au traitement réservé aux intermédiaires en vertu de la Loi de l'impôt sur le revenu. Ainsi, s'ils versent des salaires, la taxe ne pourra être prélevée que sur les frais de gestion et ses intermédiaires pourront réclamer un crédit au titre des achats de biens et de services comme tous les autres contribuables.

Le président: J'ai justement une participation importante dans une telle entreprise et nous percevons des frais de gestion, ce qui est bien beau, et des commissions et autres frais qui constituent le revenu de la société. Allez-vous prélever une taxe additionnelle sur le revenu? Il est assez difficile de faire la répartition proportionnelle. Comment allez-vous distinguer les frais de gestion des autres revenus d'exploitation?

M. Hoffman: En dernière analyse, les frais de gestion frais assujettis à la taxe et les fonds pourraient réclamer une déduction au titre des achats de papier, de tables, de chaises et tout le reste, comme n'importe quel autre contribuable. Ainsi, la taxe serait prélevée uniquement sur la fraction des frais de gestion qui représente une valeur ajoutée, comme c'est le cas des compagnies de fiduciaire et de tous les autres contribuables.

Le président: La taxe est-elle donc prélevée sur les revenus provenant de frais?

M. Hoffman: Oui, c'est essentiellement le cas.

Le président: Mais la taxe ne serait-elle pas prélevée sur les revenus provenant des services d'intermédiation?

M. Hoffman: Non, parce qu'il y a . . .

Le président: Ces sociétés ont aussi généralement du capital et elles utilisent aussi une partie de leur fonds propres pour l'exploitation et les placements. Elles mettent souvent en commun leur fonds propres et les fonds de leurs clients.

M. Hoffman: Oui.

Le président: Autrement dit, elles peuvent parfois s'associer à un syndicat pour assurer le financement d'une importante hypothèque et détiendrait alors une participation dans le montage financier.

M. Hoffman: Selon le traitement décrit ici . . .

Le président: Je me demande tout simplement comment vous allez procéder. Ces sociétés demandent à leurs clients des frais de gestion au titre des services d'intermédiation.

M. Hoffman: C'est exact.

Le président: Elles ne s'imposent pas manifestement de frais de gestion. Il n'y a pas de taxe de vente sur les revenus de placements.

M. Hoffman: C'est exact.

M. Friedman: Mais n'y a-t-il pas là un parallèle à tirer avec celui qui investit à titre individuel en tant que

[Text]

work for yourself? In that case, there is not imputed value added, is there?

The Chairman: That is right.

Mr. Friedman: So that escapes the taxing net. Is that a good analogy?

Mr. Hoffman: Yes.

Mr. Friedman: In effect, we are treating these intermediaries as an extension of a household, just as we do in the corporate context.

The Chairman: There is another little problem. You could very well wind up—depending on the split between investment income and investment activity and management fees—with the government paying the tax back and all sorts of things. It is used in the investment business, but it is being charged against the management business. Is that not the problem with a banking situation, for example?

Mr. Friedman: You were raising an allocation problem.

The Chairman: Yes, but I do not know how you allocate that stuff.

Mr. Friedman: Ballpark it.

The Chairman: You can be damn sure that they are going to allocate everything to the management business.

Mr. Friedman: I think you are outlining another problem.

Mr. Hoffman: To return to the third point, the white paper suggests that some credit would be also given for bad and doubtful debts for a financial institution. Let us think about why that should be the case.

When the lender charges the borrower some interest rate, let us say, some portion of the interest charged includes a risk premium, reflecting the probability and costs of a default on a loan. So since we charge the whole of interest income in the margin calculation, it is necessary to give a deduction for the expected value of future losses. People who pay into the financial intermediary's interest or risk premium are in essence transferring part of their capital to cover the losses that the financial institution might incur on those who go into default. That portion of the margin per se does not constitute value added. So to tax the gross margin per se would be to tax too much.

The white paper does not provide too much detail on how this would be accomplished, except to say that some relief would be provided for bad and doubtful debts similar to the income tax treatment. We must note that the treatment of bad and doubtful debts has recently undergone a substantial upheaval by stage one of tax reform. My only remark there is that some people might be quite concerned that this treatment should be extended to the sales tax treatment. I think the concern there stems

[Translation]

consommateur et qui fait des travaux de consultant pour son propre compte? Dans ce cas-là, il n'y a pas de valeur ajoutée imputée, n'est-ce pas?

Le président: C'est exact.

M. Friedman: Il n'y a donc pas de taxe dans ce cas-là. Est-ce une bonne comparaison?

M. Hoffman: Oui.

M. Friedman: En fait, nous assimilons ces intermédiaires à un ménage, comme nous le faisons dans le cadre du régime d'imposition des sociétés.

Le président: Il y a un autre petit pépin. Si une distinction est faite entre les revenus de placement et les frais de gestion, le gouvernement pourrait très bien être obligé de rembourser la taxe. Certains intrants pourraient être utilisés dans le cadre des activités d'investissement et être imputés aux activités de gestion. N'est-ce pas le problème qui se pose dans le cas des banques, par exemple?

M. Friedman: Vous avez soulevé le problème de la répartition proportionnelle.

Le président: Oui, mais je ne sais comment vous allez vous y prendre.

M. Friedman: Il faudra faire un calcul approximatif.

Le président: Elles vont tout imputer aux activités de gestion, vous pouvez y compter.

M. Friedman: Vous touchez là à un autre problème.

M. Hoffman: Revenons au troisième point; le Livre blanc propose qu'un crédit soit accordé au titre des mauvaises créances et des créances douteuses d'une institution financière. Essayons de voir pourquoi ce serait nécessaire.

Quand le prêteur fixe un taux d'intérêt à l'emprunteur, une fraction de cet intérêt est en fait une prime de risque, reflétant la probabilité de non-remboursement d'un prêt et des coûts qui en résulteraient. Ainsi, puisque nous ajoutons la totalité des revenus d'intérêt dans le calcul de la marge bénéficiaire, il faut accorder une déduction en fonction de la valeur prévue des pertes éventuelles. Ceux qui versent à l'intermédiaire financier des intérêts ou une prime-risques, transfèrent en fait une partie de leur capital à l'institution financière pour couvrir les pertes qui résulteraient du non-remboursement. Ainsi, cette fraction de la marge bénéficiaire ne fait pas partie de la valeur ajoutée. Ainsi, si nous taxions la marge bénéficiaire brute, nous taxerions trop.

Le Livre blanc est avare de détails sur la façon d'éviter ce problème et ne prévoit que certains allègements au titre de mauvaises créances et de créances douteuses, semblables à ceux prévus dans la Loi de l'impôt sur le revenu. Il ne faut pas oublier que le traitement réservé aux mauvaises créances et aux créances douteuses a été modifié en profondeur par la première étape de la réforme fiscale. Tout ce que je peux vous dire, c'est que certaines personnes seront portées à réclamer que le

[Texte]

from what the government has suggested should be a prescribed rate applied to the inclusion of doubtful debt provisions in income. I do not think the government position on this treatment has been adequately defended.

The Chairman: It is indefensible.

Mr. Hoffman: As an independent economist, I would agree with the chairman's position, and I would also venture a prediction that you will be hearing from the financial institutions on this point. So this will merit further attention.

Lastly, commissions paid to agents will be creditable and will constitute a taxable sale for the agent. This means that a property and casualty insurer—unlike, say, a banking operation, which pays its wages and salaries to its employees who give the service at the counter—provides that value added in two ways: at company level and through its agent network. In essence this treatment says the company will get a credit for commissions paid to its agents and we will tax the value added provided by agents in the agent's hands.

• 0955

Now, when you think about that, that is really necessary because there are thousands upon thousands of insurance agents in this country, all of which have purchases of goods and services. Presumably they would like to have credits against something. So you would have to include their commissions as a taxable sale in order to allow them to get a credit for their purchases of paper, desks, chairs, buildings, and so on.

Mr. Friedman: The insurance companies will I assume do the withholding. If you get a \$1,000 commission, will they do the withholding?

Mr. Hoffman: No, they will not. There is no suggestion that would be the case.

Mr. Layton: Does it add to the bookkeeping?

Mr. Hoffman: It means that you could in concept tax that value added at company level, if you wanted to, but just deny him credit for commissions. I suppose, from one point of view, that it might have an advantage in that you do not have to bring all the agent networks into the scheme. However, I think that has a direct consequence in that the agents would be stuck with the tax on their purchases. So it seems that you have to bring in the commissions as a taxable sale for the agents. The other consequence is that you have just brought in several thousand more taxpayers.

The Chairman: When you were analysing insurance, did you think about just a straight premium tax?

[Traduction]

même traitement soit accordé au titre de la taxe de vente. Leurs préoccupations découlent du fait que le gouvernement a proposé un taux prescrit d'inclusion dans le revenu des provisions pour créances douteuses. J'estime pour ma part que le gouvernement n'a pas adéquatement justifié sa position à cet égard.

Le président: Elle est indéfendable.

M. Hoffman: En tant qu'économiste indépendant, je suis plutôt d'accord avec la position du président et j'irais même jusqu'à prédire que les institutions financières voudront aborder cette question avec vous. Cet aspect de la question mérite donc d'être approfondie.

Enfin, les commissions versées aux agents donneraient droit à un crédit d'impôt et constitueront une vente imposable pour l'agent. Cela signifie qu'une compagnie d'assurances générales crée une valeur ajoutée de deux façons: au niveau de la société et par l'entremise de son réseau d'agents, contrairement aux banques par exemple qui versent un salaire ou autre rémunération aux employés qui assurent le service au guichet. Le Livre blanc prévoit essentiellement que la compagnie obtiendra un crédit pour les commissions payées à ses agents et que le gouvernement taxera la valeur ajoutée résultant de l'activité des agents.

Vous admettez que cela est tout à fait nécessaire parce qu'il existe au Canada des milliers et des milliers d'agents d'assurance qui achètent tous des biens et des services. Ils voudront présumément obtenir des crédits pour certains de ces achats. Ainsi, il faut que leur commission soit réputée avoir été réalisée sur des ventes taxables de sorte qu'ils puissent obtenir un crédit pour leurs achats de papier, de pupitres, de chaises, de locaux, etc.

M. Friedman: J'imagine que les compagnies d'assurance feront la retenue de la taxe. Si un agent touche une commission de 1,000\$, fera-t-il la retenue de la taxe?

M. Hoffman: Non. Personne n'a proposé cela.

M. Layton: Est-ce que cela compliquera la tenue des livres?

M. Hoffman: Cela signifie que la taxe pourrait être prélevée sur la valeur ajoutée au niveau de la compagnie mais que le crédit serait refusé. Pour cette raison, ce serait la solution la plus avantageuse puisqu'il ne serait pas nécessaire de compter sur la participation de tous les agents. Toutefois, les agents ne pourraient, par conséquent, obtenir le remboursement de la taxe payée sur leurs achats. Il me semble donc que les commissions des agents doivent être assimilées à une vente taxable. Autre conséquence de cette formule, il y aura plusieurs milliers de contribuables additionnels.

Le président: Quand vous avez fait votre analyse du secteur de l'assurance, avez-vous envisagé la possibilité de prélever carrément une taxe sur les primes?

[Text]

Mr. Hoffman: There are several dire consequences with a premium tax, Mr. Chairman. First of all it is conceptually inappropriate, before we turn to other issues, simply because—

The Chairman: What is conceptually inappropriate depends on what your concept is: whether your concept is to raise money or whether your concept is to be a purist.

Mr. Hoffman: In the opening statement in the white paper this was a tax on consumption of services, and it was said to be fair and equitable. Within those confines, will a premium tax accomplish the government's stated objectives? I think the answer is clearly no.

The Chairman: Why?

Mr. Hoffman: If you want to raise more money it is the only way to go. For example, on a typical life policy you might see the net margin or the net loading factor, if you will, somewhere between 10% and 20% of the gross premium. Therefore, the base might only be, after allowing all other deductions, 7¢ or 8¢ on a dollar instead of 100¢ on a dollar.

So I would suggest to you that, if the committee comes out in favour of a premium tax, one will hear from the life and property and casualty industry very quickly. In those circumstances it is not consistent with the rest of the system. Then your objective is quite clearly one of raising revenue.

I might also raise another point, which is something called retaliatory clauses in provincial and state legislation concerning premium taxes. As the chairman probably knows, every province in this country and every state has premium taxes—around 2% to 3%. Every or most pieces of legislation that I have looked at from the states and provinces contain retaliatory clauses which in essence say that, if another taxing jurisdiction raises its taxes on insurance doing business in my jurisdiction, we will generally double our premium taxes on insurers resident in that jurisdiction.

There has been some suggestion—which I cannot substantiate—that when Ontario tried to raise its premium taxes a number of years ago there was a potential threat of raising premium taxes in U.S. states. I would suggest that this would cause great harm to the Canadian insurance industries which are substantial suppliers of insurance in the United States. I just think that is the wrong way to go. I will let industry speak to that more directly. I think you should be aware of those consequences.

Mr. Friedman: I think there is an implication that only 20% represents the load factor. What is the other 80%?

Mr. Hoffman: The other 80% is the savings element of the policy. I am just pulling an example off the top of my head. That loading factor—

[Translation]

M. Hoffman: Monsieur le président, l'imposition d'une taxe sur les primes a de nombreuses conséquences désastreuses. D'abord, l'idée elle-même est inacceptable tout simplement parce que. . .

Le président: Ce qui est inacceptable au plan théorique dépend de votre objectif premier, à savoir de trouver des recettes ou d'être puriste.

M. Hoffman: L'exposé de principes du Livre blanc parle d'une taxe sur la consommation de services qui devait être juste et équitable. Étant donné ce paramètre est-ce qu'une taxe sur les primes permettrait d'atteindre l'objectif avoué du gouvernement? Non, pas du tout.

Le président: Pourquoi pas?

M. Hoffman: C'est la seule façon de procéder si vous voulez obtenir davantage de recettes. Par exemple, la marge bénéficiaire nette ou le coefficient de chargement net, si vous préférez, sur une police d'assurance-vie typique se situe entre 10 et 20 p. 100 de la prime brute. Ainsi, l'assiette de la taxe, compte tenu de toutes les autres déductions, ne serait que de 7c. ou 8c. plutôt que d'un dollar.

Si le comité se prononce en faveur d'une taxe sur les primes, je soupçonne que les compagnies d'assurance-vie et d'assurances générales pousseront rapidement des hauts cris. Cette mesure ne serait pas conforme à la logique du régime proposé. L'objectif serait alors manifestement d'augmenter les recettes.

Je vous signale par ailleurs l'existence, dans les lois provinciales et étatiques, de clauses de représailles à l'égard des taxes sur les primes. Comme le président le sait sans doute, chaque province canadienne et chaque état prélève des taxes sur les primes de 2 à 3 p. 100. Dans la plupart ou la totalité des lois provinciales et étatiques que j'ai examinées, j'ai trouvé des clauses de représailles qui disent essentiellement que si une autre autorité fiscale augmente ses taxes sur les compagnies d'assurance implantées sur le territoire d'une autre autorité fiscale, cette dernière doublera les taxes sur les primes que doivent payer les assureurs faisant affaire sur son territoire.

J'ai entendu dire—mais je ne saurais le confirmer—quand l'Ontario a voulu augmenter sa taxe sur les primes il y a quelques années, certains états américains ont menacé d'en faire autant. À mon avis, cela serait très préjudiciable aux compagnies d'assurance canadiennes qui réalisent une proportion appréciable de leur chiffre d'affaire aux États-Unis. À mon avis, cette option doit être écartée. Je laisserai aux porte-parole de l'industrie le soin de présenter leurs arguments. Vous devez toutefois être conscients des conséquences.

M. Friedman: Cela donne à penser que le coefficient de chargement n'est que de 20 p. 100. À quoi correspondent les 80 p. 100 restants?

M. Hoffman: Les 80 p. 100 restants correspondent à l'élément épargne de la police. C'est un exemple que j'ai choisi à tout hasard. Le coefficient de chargement. . .

[Texte]

The Chairman: What you are saying is that it is an actuarial problem in the policy. You do not mean the savings element, you mean pooling of the risk element.

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Mr. Friedman: And the capital itself.

Mr. Layton: Yes.

Mr. Hoffman: Technically, this is called an accumulating fund. Some portion of the premiums paid in are used to meet death claims or surrender values, and I just used the 20% as an example. Again, that can vary all over the map depending on the type of policy. But typically it is a small fraction of the total premium.

Mr. Layton: I did not fully understand, if I just pursue it for a minute, that other jurisdictions would see the need for adding to their premium tax if we were to introduce a premium tax. I was not clear why.

Mr. Hoffman: This is a threat. It is not clear that this will happen. But just to lay it out, other jurisdictions have clauses in the their premium tax legislations. For example, it is possible that somebody in New York State could say you have just put a federal premium tax on say New York Life doing business in Canada, therefore we are going to double our premium taxes on all Canadian insurers doing business in New York State and put them at a competitive disadvantage.

Mr. Layton: Even though our tax might apply to all insurers?

Mr. Hoffman: Correct.

The Chairman: This is entering into a free trade agreement which prohibits any state doing that, though.

Mr. Hoffman: It is not clear—

The Chairman: Specifically prohibits—

Mr. Hoffman: I am not a lawyer, sir, but it is not clear to me that states are bound to such an agreement.

The Chairman: Yes they are.

Mr. Hoffman: In the past, U.S. states have done exactly this—

The Chairman: I know, but there was no treaty before, though.

Mr. Hoffman: —and it has been found in the courts that they have not been bound by federal legislation. So I only set this out as a warning that if you go down that path it should be looked at very closely.

Mr. Layton: And as you say, it will certainly come to our attention from the institutions affected.

Mr. Hoffman: It most certainly will.

Mr. Layton: You are alerting us, okay. Thank you, Mr. Chairman.

[Traduction]

Le président: Vous nous dites donc que c'est un problème actuariel inhérent à la police. Vous ne voulez pas parler de l'élément épargne mais plutôt de la mise en commun des risques.

M. Friedman: Et le capital lui-même.

M. Layton: Oui.

M. Hoffman: Techniquement, c'est ce que l'on appelle un fonds cumulatif. Une partie des primes sert à couvrir les prestations de décès ou les rachats et j'ai cité le chiffre de 20 p. 100 uniquement à titre d'exemple. Encore une fois, le chiffre réel peut varier considérablement selon le type de police. Mais, généralement, c'est une petite partie de la prime totale.

M. Layton: Si je puis demander une précision, je n'ai pas très bien compris pourquoi les autres juridictions voudraient accroître leurs taxes sur les primes si nous en introduisons une. Je vois mal pourquoi.

M. Hoffman: En guise de représailles. Il n'est pas établi que cela arriverait. Pour vous expliquer un peu, les autres juridictions possèdent un certain nombre de clauses dans leur législation établissant les taxes sur les primes. Par exemple, il est possible que l'état de New York décrète que, puisque nous venons d'imposer une taxe fédérale sur les polices de la New York Life souscrites au Canada, lui-même va doubler les taxes sur les polices d'assurance canadiennes souscrites par des habitants de l'état de New York afin de nous rendre moins compétitifs.

M. Layton: Même si notre taxe s'applique à tous les assureurs?

M. Hoffman: Oui.

Le président: Mais nous concluons une entente de libre-échange qui interdit aux parties de faire cela.

M. Hoffman: Ce n'est pas sûr. . .

Le président: Interdit expressément. . .

M. Hoffman: Je ne suis pas juriste, Monsieur, mais il ne paraît pas établi que les États américains seraient contraints par une telle entente.

Le président: Si.

M. Hoffman: Par le passé, Les États américains ont fait exactement cela. . .

Le président: Je sais, mais il n'y avait pas de traité auparavant.

M. Hoffman: . . . et les tribunaux ont tranché qu'ils n'étaient pas tenus de respecter la législation fédérale. Je dis donc cela en guise d'avertissement, afin que l'on réfléchisse bien avant de s'engager dans cette voie.

M. Layton: et comme vous le dites, les compagnies d'assurance intéressées ne manqueront pas de protester.

M. Hoffman: Certainement.

M. Layton: Mais vous voulez nous mettre en garde dès aujourd'hui. Je vous remercie, monsieur le président.

[Text]

The Chairman: The other reason is it makes an insurance certificate less a competitive financial instrument to a bank deposit.

Mr. Hoffman: Absolutely!

The Chairman: So if you were going to do it on insurance premiums, you would have to do it on bank deposits as well.

Mr. Hoffman: And then again, you would have a system that bears no relation to the rest of the value-added tax.

The Chairman: Which gets you into a hell of a mess.

Mr. Layton: A few taxpayers might be affected.

Mr. Friedman: Then taking it to its extreme, since Toronto transit fares go up by 5% to 10% a year, you might tax subway tokens for people who held onto them because they knew they would increase in value after a year.

Mr. Minaker: We would classify those as used.

Mr. Hoffman: Mr. Chairman, there is also an issue concerning the national sales tax proposal with regard to financial institutions, and that is, if the provinces were to join in the system you would be required to create allocation rules to apportion inputs. Indeed, you would have to apportion, presumably, the margin, the tax base for the financial institution among the provinces.

Now, we have an apportionment rule here for determining the "Canadian" and "international" portion of the margin based on interest, dividends and fees. Presumably you would have to have a second rule to apportion where the service is flowing in Canada. And I would suggest you might have some difficulties getting the provinces to agree that when that deposit is made in Toronto or Ottawa and the loan is made in Alberta, where is the service being performed and who should, correspondingly, receive the revenue? I think their rules could be worked out. We have somewhat related rules in the Income Tax Act. You might turn to something based on ratios of loans and deposits, but any rule would have to be somewhat ad hoc and subject to negotiation.

If I might close, Mr. Chairman, on page 4-28 we had just begun to touch on what we thought was a crucial stumbling block in the proposal. As we had said from the outset, if you choose to tax financial intermediaries, you can only do so under the GST method, that is the subtraction method, because it is impossible to tax or measure the value-added inherent in any specific transaction.

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In a rough way, it would appear the government's proposal accomplishes this objective, albeit at the cost of not providing an input to businesses. After all, if you tax this margin inherent in the financial institutions, some

[Translation]

Le président: L'autre raison, c'est que cela rend les certificats d'assurance moins compétitifs par rapport aux dépôts bancaires.

M. Hoffman: Absolument!

Le président: Et si l'on devait taxer les primes d'assurance, il faudrait également taxer les dépôts bancaires.

M. Hoffman: Et là encore, vous auriez un système totalement différent du reste de la taxe à la valeur ajoutée.

Le président: Ce qui pose toutes sortes de complications.

M. Layton: Pas mal de contribuables seraient touchés.

M. Friedman: Et si l'on pousse les choses à la limite, sachant que le prix des transports en commun augmente de 5 à 10 p. 100 par an, on pourrait taxer les jetons de métro que les gens auraient conservés, sachant que leur prix augmenterait au bout d'un an.

M. Minaker: On les classerait comme biens usagers.

M. Hoffman: Une taxe de vente nationale perçue auprès des institutions financières pose encore un autre problème à savoir que si les provinces y participaient, il faudrait distinguer la provenance des recettes par province. Il faudrait calculer quelle proportion de l'assiette imposée, de la marge, provient de quelle province.

Il existe déjà une règle de répartition pour déterminer la partie «canadienne» et la partie «internationale» de la marge bénéficiaire, calculée sur la base des intérêts, des dividendes et des honoraires. Je suppose qu'il faudrait alors adopter une deuxième règle pour déterminer dans quelle province le service est rendu. Et vous auriez sans doute des difficultés à faire en sorte que les provinces s'entendent là-dessus. Si un dépôt est effectué à Toronto ou Ottawa et que le prêt est accordé en Alberta, dans quelle province le service est-il rendu et laquelle va percevoir la taxe correspondante? Il faudrait établir des règles. Il existe déjà des règles similaires dans la Loi de l'impôt sur le revenu. Il faudrait peut-être prendre comme critères les ratios des prêts et des dépôts mais il est certain qu'il faudra en négocier de nouvelles.

Pour terminer, monsieur le président, à la page 4-28 nous avons isolé ce qui nous paraît un autre inconvénient crucial du projet. Ainsi que nous l'avons dit dès le départ, si vous décidez de taxer les intermédiaires financiers, vous ne pouvez le faire qu'avec la méthode de la taxe sur les biens et services, c'est-à-dire la méthode de la soustraction car il est impossible de mesurer la valeur ajoutée inhérente à une transaction donnée.

On pourrait donc dire à prime abord que la proposition du gouvernement permet de réaliser cet objectif, mais cela se fait aux dépens des entreprises. En effet, si l'on impose cette partie de la marge bénéficiaire

[Texte]

part of that is consumption; namely, that part the household purchases directly from the bank or insurance company. But that part which firms purchase when they purchase financial services from a bank is not consumption yet. It is still an input, as any other input, in the production value-added chain. It becomes consumption when that firm sells its products to the end user.

The government, as I said last night, has admitted this is a flaw in the proposal, but it has chosen to deny the credit on the grounds that the tax distortion is small and any credit would be arbitrary. That might be going a bit too far, and as I said last night I think you will hear from the institutions, because this would conceivably give rise to an import bias. Many people will come to you saying you are going to drive financial institutions offshore, because clearly somebody else will be able to provide that service offshore and they do not have to pay the tax. This arises because businesses are not given a credit.

Notwithstanding those remarks, giving a credit is problematic, because it would have to be ad hoc. You could say 1%, perhaps, of interest paid or something like that. It might be difficult to trace the credit if you said you would get the credit only if the funds were used in the course of a taxable activity, if you wanted to go that far. You might have a business with taxable and non-taxable activity, when they borrow the money and hence consume financial services. . . What did they use the funds for? Which of the two? If you have that tracing problem, as we might conceivably have with the income tax problems with interest deductibility in the near future, that might confound Revenue Canada's audit function. So I think this merits particularly close attention.

The other thing I did not touch on was that financial services consumed by households, like other services, can be purchased offshore, and it is very, very difficult to tax them. I do not think I am going to run down to New York State and try to get my mortgage and hence save this tax, especially if the net spread turns out to be something like 1% and at an 8% rate I am only saving eight 15 to 20 basis points. It is unlikely anybody in New York State is going to give me a mortgage anyway. I might, however, choose to purchase my securities through a broker in New York State by simply picking up the phone.

I can see some problems evolving with household consumption of services from non-residents. But again, this is not peculiar to financial services. One can see it happening with computer services transmitted over telephones and other services. It is very difficult to see how you get at that. I think in many instances you can devise rules to prevent Canadian resident companies from shifting their services offshore and avoiding the tax through self-supply rules. I think that is possible. But it

[Traduction]

des établissements financiers, cela se répercute en partie sur la consommation, à savoir la partie que les ménages achètent directement aux banques ou aux compagnies d'assurances. Par contre, la partie achetée par les entreprises lorsqu'elles achètent des services financiers aux banques n'est pas à assimiler à la consommation. Cela fait encore partie des facteurs de production comme tous les autres facteurs qui constituent la valeur ajoutée. On ne peut parler de consommation que lorsque l'entreprise vend sa production aux usagers.

Comme je l'ai signalé hier soir, le gouvernement, tout en admettant que cela constitue un défaut dans sa proposition, refuse néanmoins ce crédit, soi-disant parce que la distorsion fiscale est peu importante tandis que tout crédit serait arbitraire. Mais ceci est sans doute exagéré comme les établissements financiers vous l'expliqueront eux-mêmes, car cela risque de favoriser des importations. Ces mesures risquent en effet de pousser les établissements financiers à s'établir à l'étranger, car il est évident qu'il y a moyen de trouver ce même service ailleurs où il n'est pas imposé. Tout ceci parce que les entreprises n'auront pas ce crédit.

Il n'empêche que l'attribution d'un crédit soulève également des problèmes vu qu'il s'agirait d'un crédit ponctuel. On pourrait par exemple fixer le crédit à 1 p. 100 de l'intérêt versé. Il serait en outre difficile de calculer ce crédit s'il n'est accordé qu'à condition que les fonds soient utilisés pour une activité imposable. Ainsi dans une entreprise qui effectue des activités imposables et non imposables, il peut être difficile de déterminer l'emploi exact d'emprunts, soit pour les activités imposables ou soit pour les activités non imposables. Il s'avère donc difficile d'imputer l'utilisation des fonds ce qui risque fort bien d'arriver lorsque les intérêts deviendront déductibles dans un proche avenir, les vérificateurs de Revenu Canada risquent de ne plus s'en sortir. Donc cette question devrait être examinée de très près.

Mais je n'ai pas encore évoqué par ailleurs le problème de divers services financiers que les ménages peuvent se procurer à l'étranger et qu'il est donc extrêmement difficile d'imposer. Les gens ne vont sans doute pas aller à New York pour obtenir une hypothèque et payer ainsi moins d'impôt, surtout lorsque la différence est très petite. D'ailleurs je doute qu'on puisse obtenir des hypothèques à New York. Par contre, il est tout à fait possible d'acheter des obligations à New York simplement en s'adressant à un courtier new yorkais par téléphone.

L'utilisation des services financiers par des ménages qui ne sont pas résidents dans le pays pourrait également provoquer des problèmes, mais ces problèmes ne caractériseraient pas les seuls services financiers. C'est ce qui arrive déjà avec des services informatisés transmis au téléphone. On peut appliquer des règles qui empêcheraient des entreprises canadiennes d'obtenir des services financiers à l'étranger et d'éviter ainsi à avoir à payer l'impôt grâce à des dispositions sur l'auto-

[Text]

seems likely there will always be some small element of household consumption that might escape the tax.

Mr. Layton: Could this go so far as to engage the telecommunications business, as with long distance telephone calls? It is not impossible.

Mr. Hoffman: It is not impossible. Right now I know of some business users in Vancouver that route their telephone calls through Blaine, Washington, back to New York State and into Toronto.

Mr. Friedman: But be careful, because you are falling into the same trap. As long a business—and this leads into transportation—gets full credit for all its purchases, there is no incentive to have the... The only incentive to go through Blaine rather than through Canada is that perhaps the satellite services are cheaper. There is more competition for communications in the U.S. But as long as the business does the purchasing, there is no incentive just for the tax, because you get a full credit on all your purchases.

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Mr. Layton: Not for the business, but for the eventual—

Mr. Friedman: For the eventual households.

Mr. Hoffman: Direct consumption by households, households all receive the tax anyway; so this is clearly a saving for households.

Mr. Layton: The net price differential without tax is going to be noticeable in the price paid.

Mr. Hoffman: That is right. In conclusion, Mr. Chairman, I think this latter argument is the one on which much of this discussion will hinge, that many of the briefs from the financial institutions will focus on this potential import bias, and I think the government has probably treated this issue somewhat cavalierly.

The Chairman: Andy mentioned the question of people not opting for foreign service, because they would not be able to write off the tax. But surely if I am buying a computer service from Toronto, and I have the opportunity to buy one from Buffalo, and the price is the same, except the Toronto guy has to charge 10% on his service...?

Mr. Friedman: Are you a business or an individual?

The Chairman: If I am a business, I suppose I can write off the tax.

Mr. Friedman: You do not write it off, you can get the tax right back.

Mr. Layton: But eventually your customer, the end user, will have to pay the tax.

Mr. Weyman: If it happened you were one of these many now exempt businesses we suggested should be in the system, you might be concerned, because as an exempt business paying the tax on the domestic purchase, you

[Translation]

approvisionnement. C'est sans doute possible. Mais un certain pourcentage de la consommation des ménages échappera fatalement au fisc.

M. Layton: Est-ce que cela pourrait également s'appliquer aux communications téléphoniques interurbaines?

M. Hoffman: Ce n'est pas impossible. Je sais qu'il existe des entreprises à Vancouver qui pour leurs appels passent par Blaine dans l'état de Washington et ensuite par New York et Toronto.

M. Friedman: Attention car vous allez tomber dans le même piège. Tant que les entreprises sont créditées pour tous leurs achats, le seul avantage qu'ils auraient à passer par Blaine plutôt que par le Canada pour leurs communications téléphoniques serait dû au fait que les satellites sont moins chers aux États-Unis où la concurrence dans le domaine des télécommunications est beaucoup plus forte. Il n'y a aucun avantage puisque tous les achats d'entreprises font l'objet d'un crédit.

M. Layton: En ce qui concerne les...

M. Friedman: Les ménages.

M. Hoffman: Les services utilisés par les ménages sont visés, de sorte qu'il y a une économie dans leur cas.

M. Layton: La différence entre le prix avec et sans la taxe est appréciable.

M. Hoffman: En effet. En conclusion, monsieur le président, ce dernier point est celui qui retiendra le plus l'attention; beaucoup de mémoires des établissements financiers feront état de cet avantage possible pour les importations; le gouvernement a probablement examiné la question de façon superficielle.

Le président: Andy a mentionné le fait que les gens pourraient ne pas choisir les services étrangers parce qu'à ce moment-là ils pourraient être empêchées de déduire la taxe. Cependant, si j'ai besoin d'un service d'informatique, et que j'ai le choix entre Toronto et Buffalo, le prix étant égal, sauf que l'achat de Toronto implique une taxe de 10 p. 100...

M. Friedman: A titre d'entreprise ou de particulier?

Le président: À titre d'entreprise, je suppose que je puis déduire la taxe.

M. Friedman: Vous n'avez pas à la déduire, elle vous est remboursée immédiatement.

M. Layton: Au bout du compte le client ou l'utilisateur paie la taxe.

M. Weyman: Si vous êtes une des nombreuses entreprises exonérées actuellement, nous avons dit souhaiter leur inclusion dans le système, vous avez des raisons de vous inquiéter; où vous êtes exonéré de la taxe

[Texte]

would not get the tax back. You would therefore be better off if you could avoid paying the tax completely by buying from outside the country.

Mr. Hoffman: Mr. Chairman, if you follow the treatment outlined in the white paper for exempt financial institutions that are heavy purchasers of brokerage fees, for example, you would want to be very concerned you do not drive the brokerage industry offshore by creating an incentive for exempt Canadian financial institutions to purchase their—

Mr. Layton: It is an in-house story.

The Chairman: We have this Indian reservation in Cornwall. We are going to have to do a revenue investigation into that one.

Mr. Layton: They are well represented.

Mr. Warner: They can supply insurance services offshore.

The Chairman: They can supply onshore and not pay tax on it. They are an Indian reservation.

If you exempt a bank, for example, and the bank is in the business of buying computer service, buying all sorts of services, it is obviously likely to buy offshore rather than buy from a Canadian source, where they would have to pay tax.

Mr. Hoffman: You need a self-supply rule.

The Chairman: Then you have to say that any purchases, whether you buy them onshore or offshore, are taxable. Presumably services crossing the border are taxable.

Mr. Friedman: But then we get back to the problem of when our service is imported.

Mr. Warner: How would you enforce the situation where someone buys insurance from the United States? How are you going to tax that? How would you impose our sales tax on a person buying his car insurance, or maybe that would be prohibited, but on life insurance, from New York State?

Mr. Friedman: Could you not somehow have rules relating to the ability to sell insurance in Canada, unless you were registered, like the provinces do, for example?

Mr. Warner: You do not buy it in Canada. You buy it in New York State.

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The Chairman: Sure, but you are insuring your life as a domiciled Canadian. Therefore you are personally responsible for paying the tax, just as you are when you whip across the border, buy some goodies over there that

[Traduction]

actuellement pour les achats au pays de sorte que vous n'avez pas droit au remboursement de la taxe en vertu du nouveau système. À ce moment-là, vous faites mieux d'éviter complètement le paiement de la taxe en vous adressant à l'extérieur du pays.

M. Hoffman: Compte-tenu du traitement prévu dans le Livre blanc pour les établissements financiers exonérés qui achètent beaucoup de services de courtage, par exemple, vous devez prendre grand soin de ne pas chasser à l'étranger l'industrie du courtage en incitant les établissements financiers canadiens exonérés à s'adresser. . .

M. Layton: C'est une affaire interne.

Le président: Il s'agit d'une réserve indienne à Cornwall. Il doit y avoir une enquête du Ministère du revenu.

M. Layton: Elle est bien représentée.

M. Warner: Elle peut fournir des services d'assurances à l'étranger.

Le président: Elle peut fournir des services canadiens et éviter de payer la taxe. Il s'agit d'une réserve indienne.

Prenez le cas d'une banque. En tant qu'entreprise, elle doit acheter des services d'informatique et autres; elle risque de s'adresser à l'étranger plutôt que d'acheter ses services au Canada où elle doit acquitter la taxe.

M. Hoffman: Il faut une règle pour les services fournis à l'intérieur d'une même organisation.

Le président: À ce moment-là, il faut que tous les achats, qu'ils soient effectués à l'étranger ou au Canada, soient visés par la taxe. Il faut supposer que les services trans-frontaliers soient visés par la taxe.

M. Friedman: Le problème est de définir ce qu'est un service importé.

M. Warner: Que se passe-t-il si quelqu'un achète de l'assurance des États-Unis? Comment la taxe peut-elle être imposée à ce moment-là? Comment peut-elle être imposée sur une assurance-auto—ça serait sans doute interdit—ou sur une assurance-vie achetée dans l'état de New York?

M. Friedman: Ne pourrait-il pas y avoir des règles portant sur la possibilité de vendre de l'assurance au Canada? Ne serait-il pas possible de prévoir que les sociétés doivent être enregistrées? C'est ce que font les provinces actuellement.

M. Warner: Vous n'achetez pas au Canada, vous achetez dans l'état de New York.

Le président: Bien sûr, mais vous achetez de l'assurance-vie en tant que résident canadien. Par conséquent, c'est à vous qu'il incombe de payer la taxe, tout comme si vous traversiez la frontière pour y acheter

[Text]

are not taxed and smuggle them into this country where you are taxed with the sales tax.

Mr. Warner: So you are relying on voluntary compliance.

The Chairman: You are obviously going to have some leakage. On an insurance contract you might very easily catch it because there is a lot of money involved; particularly if it pays off, you just go after the estate.

Mr. Warner: How about property and casualty insurance?

Mr. Hoffman: You have to be registered to sell P&C insurance in Canada

Mr. Warner: That is right. When you purchase it in New York State, it covers risk that may be international or it may not; it may be a risk that is only in Canada.

Mr. Hoffman: If I am a Revenue Canada auditor doing the audit and if I see an insurance premium paid to a New York resident company, I ask whether it was written on a risk situated in Canada, and I have it.

Mr. Warner: Right. Okay.

Mr. Hoffman: There is a problem if I get a letter in the mail from some life insurance company in Omaha saying they will insure my life and asking me to send the cheque in the mail. This is the one that is difficult to police. Fortunately, most life insurance is very labour-intensive. You have to have a lot of salesmen to get out there to push the policies. The portion of the business through the mail is small, but the hole is there. It is difficult to police at the household level.

Mr. Friedman: If we go back to where we were two days ago, we were just leaving page 4-10 on passenger transportation. There are some strange rules on tours arranged by travel agents and international tours. The white paper proposes to tax their margin, and it is very difficult to see how they would do it. The rules are very complicated, and it is just an area that probably should be studied a little bit more.

We move on to freight transportation. Domestic freight should be no problem. It is like any other good, but there seems to be a falsehood creeping in. Around Canada you hear people saying there is an incentive for a Canadian shipper doing business in Canada, shipping from say Vancouver to Moncton, New Brunswick, to route the shipment through Washington and then through the midwest and back into Canada somewhere in Quebec, and you save the tax on the freight.

[Translation]

de bonnes choses qui ne sont pas taxables, pour ensuite les passer en contrebande au Canada, où ces mêmes produits sont assujettis à la taxe de vente.

M. Warner: Donc, vous invoquez le principe de l'observation volontaire.

Le président: Évidemment, il y aura toujours des fuites. C'est bien facile à déceler, s'il s'agit d'un contrat d'assurance, vu les fortes sommes en cause; surtout le jour où la compagnie d'assurance doit déboursier, vous vous en prenez à la succession.

M. Warner: Et les assurances concernant la propriété et les risques divers?

M. Hoffman: Toute compagnie d'assurance générale doit être enregistrée au Canada.

M. Warner: C'est exact. Si vous achetez de l'assurance dans l'État de New York, vous pouvez obtenir une protection s'appliquant dans d'autres pays, mais vous courez aussi le risque que cette protection ne s'applique qu'au Canada.

M. Hoffman: Si je suis vérificateur à Revenu Canada et que je vois qu'une prime d'assurance a été versée à une société établie à New York, je demande si cette protection contre risques divers s'applique au Canada, et j'ai ma réponse.

M. Warner: Bon. D'accord.

M. Hoffman: Un problème se pose lorsqu'une société s'assurance-vie d'Omaha m'offre un contrat par le courrier et me demande d'envoyer un chèque aussi par courrier. Ce genre de chose est beaucoup plus difficile à déceler. Heureusement, la plupart des sociétés d'assurance-vie comptent beaucoup sur la main-d'oeuvre. Elles disposent d'une armée de vendeurs pour vendre leurs polices. Elles obtiennent bien peu de polices par l'intermédiaire du courrier, mais c'est un échappatoire quand même. C'est difficile à déceler au niveau des foyers.

M. Friedman: Si nous revenons au point où nous en étions il y a deux jours, nous venions de terminer la page 4-10 au sujet du transport des passagers. Il existe certaines règles bizarres concernant les excursions organisées par des agences de voyage ou des agences de tournées internationales. Le livre blanc propose d'imposer leur marge de bénéfice, mais il est bien difficile de voir comment cela pourrait se faire. Les règles sont fort compliquées, c'est donc un domaine qu'il faudrait probablement approfondir davantage.

Passons maintenant au transport des marchandises. Sur le plan interne, cela ne devrait poser aucun problème. C'est comme pour tout autre produit, quoi qu'une erreur semble s'y être glissée. Dans certains milieux on vous dira qu'il est intéressant pour un expéditeur établi au Canada, qui expédie de Vancouver à Moncton, au Nouveau-Brunswick, mettons, de passer par les États de Washington et du Midwest, avant de rentrer au Canada, quelque part au Québec, afin d'éviter les taxes applicables aux marchandises.

[Texte]

This is not so. To the extent that the Canadian manufacturer, wholesaler or retailer pays the freight charges and then is charged the tax, they can turn around and get a credit for the tax. However, there is no doubt that if I as a consumer were shipping goods from Vancouver back to Moncton again, there would be incentive for me to save the tax on the freight charge by routing through the U.S. The question is whether to me, as a consumer, that option was available anyway. It appears to be a small point of leakage. If you are involved in domestic freight and if you are in a business, you should not be out of the money.

Outbound international freight is interesting. It is taxable if it is billed to someone in Canada, but it is tax free if it is billed to a non-resident. There is no problem if you are a Canadian business; as I said before, you can get the tax credit. However, for the Ontario Ministry of Transportation and Communications, for example, if they are sending, say, subway cars out of Canada, it pays the Ontario government to arrange to have the freight billed, and to have the American party pay the freight. If you pay the freight, it is taxed and there is no way to get a credit. There appears to be an inequality, but I have not studied it closely enough to figure out why you could not make—

The Chairman: Why could you not treat the taxes you paid on your freight as a business expense and therefore deductible or creditable?

• 1020

Mr. Friedman: If you are an exempt organization versus tax-free, if you are a government, or a charity, or a non-profit organization, you cannot get that credit back. So why could you not treat all international freight as being tax-free? It gets rid of the problem, because the only reason it is taxable here is if it is billed to someone in Canada.

It is tax-free if billed to a non-resident. What is the treatment if it is billed to a U.S. branch of a Canadian company? The Canadian company is a resident, its U.S. branch is a non-resident, but since it is the same company, where does it fall? Again there is some work to be done. The easy answer appears to be, make all international freight tax-free.

Page 4-12 looks at inbound international freight, which is all tax-free. The logic behind it is that tax will be collected indirectly at the next stage. If you pay for your freight, you will build the freight costs into your selling price, which is taxed. How do you isolate such tax-free purchases under GST? If you use your subtractive

[Traduction]

C'est faux. Dans la mesure où un fabricant, un grossiste ou un détaillant canadien verse les frais de transport auxquels la taxe est ajoutée, il peut demander que cette taxe soit remboursée. Nul doute toutefois que si c'est moi qui, à titre de consommateur, expédie des biens de Vancouver à Moncton, j'ai tout intérêt à m'épargner la taxe appliquée au transport des marchandises, en faisant passer mon expédition par les États-Unis. La question qu'il faut se poser, c'est de savoir si j'ai accès à cette option en tant que consommateur. Cela semble être un échappatoire peu important. Si vous êtes une entreprise qui expédie les marchandises au Canada, vous ne devriez pas y perdre au change.

La question devient intéressante pour les marchandises destinées à d'autres pays. Si elles sont taxables, la taxe est facturée à quelqu'un au Canada, mais si elles ne le sont pas, la taxe est facturée à un non-résident. Cela ne pose aucun problème si vous êtes une entreprise canadienne; je l'ai déjà dit, vous pouvez obtenir un crédit fiscal. Cependant, si c'est le ministère ontarien des Transports et des Communications, mettons, qui expédie des rames de métro à l'étranger, il doit verser un certain montant à l'Ontario qui s'occupe de percevoir les frais de transport de la marchandise, à l'acheteur américain. Si l'on acquitte les frais de transport, il n'est pas question d'être remboursé, étant donné qu'il s'agit de marchandise taxable. Cela semble être injuste, mais je n'ai pas approfondi suffisamment la chose afin d'expliquer pourquoi on ne pourrait pas. . .

Le président: Pourquoi les taxes appliquées au transport des marchandises ne peuvent-elles être une dépense d'entreprise, et par conséquent donnant droit à une déduction ou à un crédit?

M. Friedman: Les organisations exonérées plutôt que non imposables, c'est-à-dire les gouvernements, les organismes de bienfaisance et les organisations sans but lucratif, n'ont pas droit au crédit remboursable. Pourquoi alors ne pas détaxer tout le fret international? Cela réglerait le problème puisque le transport des marchandises est taxable uniquement parce qu'il est facturé à un client au Canada.

Il y a détaxation si la facture est présentée à un non-résident. Qu'arrive-t-il si les services sont facturés à la succursale américaine d'une société canadienne? La société canadienne a le statut de résident alors que la succursale américaine est un non-résident mais puisqu'il s'agit de la même société, à quelle catégorie appartient-elle? Il reste des détails à régler à cet égard. La réponse la plus simple semble être de détaxer tous les services de transport international des marchandises.

Nous traitons à la page 4-12 des services de transport international de marchandises à destination du Canada qui sont tous détaxés parce que la taxe sera perçue indirectement à l'étape suivante du circuit. Le fret est ajouté au prix de vente sur lequel porte la taxe. Comment fait-on pour séparer ces achats détaxés dans le cas d'une

[Text]

method, you may have a problem there because you may try to get it—

The Chairman: You just do not let it be subtracted, that is all.

Mr. Friedman: That is right, but again, you have another bucket to worry about.

The Chairman: You just define that certain things are subtractable and others are not, that is all.

Mr. Friedman: Combined domestic and international freight gets a little more complicated. You are charged separately for inbound. The domestic portion is taxable, otherwise all is tax-free. So if you have domestic and international freight... say you are moving goods from New York State to Vancouver and you say the New York State to Niagara Falls, Ontario, charges so much, and Niagara Falls to Vancouver is so much, the domestic portion is taxable.

If charged separately, it does not pay to prepay freight because if you get the American part in our example to prepay freight, they will build it into their selling price and the Canadian company cannot get a tax credit for it. What this illustrates is that business is going to have to become a little more careful about who pays freight, how the bills are broken out. Again the question is why not make all inbound freight tax-free? All outbound is taxable, if billed to Canadian customers. Again, if an exempt organization is shipping out, it pays to bill—

The Chairman: Why do you not just leave all freight exempt or tax-free, or whatever you want, in which case it will not be subtractable?

Mr. Friedman: But tax-free is exactly...

The Chairman: All right, it is not subtractable, so whoever uses it does not get any credit for it. They are going to have to gross it into their price and in effect pay tax on it, so the user of freight pays the tax.

Mr. David Weyman (Committee Researcher): The ultimate consumer.

The Chairman: Yes, the consumer of the freight pays the tax on it. Since that is really what you want to do anyway—you want to tax the consumer—why would it not be easier, since it is very difficult to determine whether it is outbound, inbound, cross-bound, in-domestic or whatever.

Mr. Friedman: Most cross-country internal freight is not difficult, because you just tack the tax on. Where it gets complicated is when it is going out or coming in, and

[Translation]

TBS? Si vous utilisez la méthode de la soustraction, vous aurez peut-être un problème parce que vous voudrez...

Le président: Vous interdisez la soustraction, c'est tout.

M. Friedman: C'est exact mais là encore il faut craindre des fuites ailleurs.

Le président: Il vous suffit de préciser quels coûts peuvent être soustraits.

M. Friedman: Les choses se compliquent s'il y a à la fois transport intérieur et international de marchandises. Dans le cas du transport à destination du Canada, les services de transport intérieur sont taxables et tous les autres sont détaxés. Ainsi, si vous assurez le transport intérieur et international des marchandises—mettons que vous transportiez des marchandises de l'état de New York à Vancouver et que le fret entre l'état de New York et Niagara Falls en Ontario soit de tant et que, de Niagara Falls à Vancouver, il soit de tant, le transport intérieur est taxable.

Si les services sont facturés séparément, il n'est pas avantageux de payer les frais de transport à l'avance parce que, si le fret est payé à l'avance sur le transport aux États-Unis, les expéditeurs américains l'ajouteront à son prix de vente et la société canadienne ne pourra pas obtenir le crédit au titre de la taxe. Cela démontre clairement que les entreprises devront faire preuve de prudence au moment de décider qui paie le fret et comment seront partagées les factures. Pourquoi alors ne pas détaxer tout le transport intérieur des marchandises? Tous les services de transport à destination de l'étranger sont taxables, s'ils sont facturés à un client canadien. Là encore, si une organisation exonérée expédie des marchandises, il est avantageux pour elle...

Le président: Pourquoi ne pas décider que tout les services de transport sont exonérés ou détaxés, peu importe, dans quel cas la soustraction serait interdite?

M. Friedman: Mais quand on dit détaxer, c'est exactement...

Le président: D'accord, la soustraction n'est pas possible et ceux qui choisissent cette option n'obtiennent aucun crédit. Ils devront l'ajouter à leur prix et payer la taxe qui sera répercutée sur les utilisateurs des services de transport.

M. David Weyman (attaché de recherche du Comité): Le consommateur final.

Le président: Oui, le consommateur des services de transport paie la taxe. Puisque vous voulez de toute façon taxer le consommateur, ne serait-il pas plus facile de procéder de cette façon puisqu'il est très difficile de déterminer s'il s'agit de transport intérieur, à destination du Canada ou à destination de l'étranger ou les deux à la fois?

M. Friedman: Dans la plupart des cas, le transport intérieur via un autre pays ne pose pas de difficultés parce que la taxe est tout simplement ajoutée. La situation se

[Texte]

in those situations tax is not charged. So that is a simple solution.

Mr. Dorin: It is not that simple for the business that has to determine it. I used to be in business. It was an airplane business, and because we were dealers we used to get airplane parts coming in from Wichita, Kansas, and lots of places in the United States and Canada. We were a dealer, but we would ship to customers virtually all over western Canada. We got bills from all kinds of companies. We did not keep freight bills and sort them out by which came in from outside the country, which came from Winnipeg, which went here, which went there. It would have been a nightmare.

Mr. Friedman: If you look at sales tax reform or GST in any other country, you have to keep all bills for six years. I think we have been coming back to this over the last three days that you are going to have to keep track of the tax. It is not simple, I agree with you.

• 1025

Mr. Dorin: I am not talking about keeping the bills. We kept the invoices around somewhere. But once we got the goods we were billed for, we would sort them basically by the freight companies, so that we paid them. And not distinguish, if you like, what. . .

Mr. Friedman: Well, all you have to do in this situation is, if you get taxable freight you keep track of the tax, which you get back right away because you are a business. If it is not taxed, then you do not get it back. But you raise the point that you still have to retrieve that information.

The Chairman: Would you not be better off in the system just making freight not taxable?

Mr. Friedman: No, because—

The Chairman: Therefore not creditable, so the user of it would have to build the freight into his price and pay tax on it.

Mr. Friedman: No. If you ever get up—

The Chairman: No matter how it is done, then, domestic or. . .

Mr. Friedman: But there is a problem there, because if you get up like I do at 4 a.m. and turn on the television and all you have is the home shopping network and you order yourself a telephone answering machine and it comes out by CanPar or one of the parcel companies, how do they know you are ordering that as a business or as an individual?

Mr. Dorin: They do not.

The Chairman: They do not. But you do not pay tax if you order it as an individual. There is no tax on it, that is all.

[Traduction]

complicque lorsqu'il s'agit de transport à destination du Canada ou de l'étranger et que la taxe n'est pas perçue. C'est donc une solution simple.

M. Dorin: Ce n'est pas si simple que cela pour l'entreprise qui doit décider. J'ai déjà fait le commerce des avions et, parce que nous étions concessionnaires, nous recevions des pièces d'avion de Wichita, au Kansas, et de plusieurs autres villes des États-Unis et du Canada. Nous étions concessionnaires mais nous faisons l'expédition d'avions à des clients dans tout l'ouest du pays. Nous recevions des factures de toutes sortes de sociétés. Nous ne faisons pas le tri de nos factures de fret selon qu'elles nous parvenaient de l'extérieur du pays, de Winnipeg ni selon leur destination. Ça aurait été un cauchemar.

M. Friedman: Si vous examinez les propositions de réforme de la taxe de vente ou la TBS dans n'importe quel autre pays, vous constaterez que toutes les factures doivent être conservées pendant six ans. Nous répétons depuis trois jours qu'il faudra inscrire religieusement la taxe. Ce n'est pas simple, j'en conviens.

M. Dorin: Je ne conteste pas la nécessité de conserver les factures. Nous les gardions. Mais quand nous recevions les marchandises pour lesquelles nous étions facturés, nous les séparions par compagnies de transport avant de les acquitter. Mais nous ne faisons pas la ventilation. . .

M. Friedman: Enfin, si vous recevez du fret taxable, vous devez calculer la taxe qui vous est remboursée aussitôt puisque vous êtes une entreprise. S'il n'est pas taxé, vous n'obtenez pas de remboursement. Mais, comme vous le dites, vous devez néanmoins récupérer ces renseignements.

Le président: Ne serait-il pas préférable de dire que le fret n'est pas taxable?

M. Friedman: Non, parce que. . .

Le président: À ce moment-là, il n'y aurait pas de crédit et l'utilisateur du service serait obligé d'ajouter le fret à son prix et d'acquitter la taxe.

M. Friedman: Non. Si jamais. . .

Le président: Peu importe la formule retenue, le transport intérieur ou. . .

M. Friedman: Mais cela pose un problème parce que si, comme moi, vous vous levez à quatre heures et ne captez à la télévision que le réseau des achats à domicile et que vous vous commandez un répondeur téléphonique qui vous sera expédié par CanPar ou par une entreprise de livraison de colis, comment celui qui prendra votre commande saura-t-il si vous le commandez pour votre entreprise ou pour votre usage personnel?

M. Dorin: Il ne le sait pas.

Le président: Il ne le sait pas. Mais vous n'avez pas à payer la taxe si vous le commandez pour votre usage personnel. Il n'y a pas de taxe, un point c'est tout.

[Text]

Mr. Friedman: But that is not fair to corporations who pay tax on value added, where they ship their own goods. Now, are you going to give them an imputed deduction for the tax-free freight?

The Chairman: Well, presumably when you buy something and it is delivered to you, there is a tax you paid on the good you bought. The fact that you got a free delivery—in other words, there was not any specific charge for the delivery to you. . .

Mr. Dorin: It had to be billed through the price.

The Chairman: It is in the price anyway.

Mr. Friedman: But to the extent that you do not tax outside freight, you have to make a company that has its own freight department equal, because their freight will be built into their selling price and that will attract tax. So there is an inequality there.

What this indicates is that unless you tax everything, if you tinker with one half, somebody else will scream. Sears will say hey, we have all our own trucks; why is it that we have to collect tax on the freight portion of our bills?

The Chairman: I see. Okay.

Mr. Friedman: I understand the inclination to make it as simple as possible. By making it as simple as possible, you have some other self-interest group that says you are being unfair.

That is freight. In the same way that you are going to get a lot of submissions on financial institutions, freight is another touchy area, especially given the size of this country and our proximity to the U.S. and the perception that there is some advantage gained by shipping goods through the U.S.

The Chairman: Indeed, that is the biggest problem right now for truckers. They tell me that in southern Ontario you are far better off to drive goods to western Canada by going through the States. First of all, you can load up on the fuel that is cheaper. And often your roads are better and sometimes it is even shorter. You are better off to do that than go the Canadian route.

Mr. Friedman: Okay, we have covered all of the specifics. Transitional issues are a bit troubling to me. The white paper spends one page, page 107, on it in the English version—one page out of 159 pages. In the French version it is one page out of 174 pages.

The Chairman: Which page are we on?

Mr. Friedman: Page 116 in the French version and 107 in the English version. The Canadian federal sales tax take will likely exceed \$14 billion this year. Therefore, it is likely that a change-over. . . Canada's importers, wholesalers, retailers, construction contractors, will have billions of dollars of refundable sales tax and inventory or

[Translation]

M. Friedman: Mais cela n'est pas juste pour les sociétés qui paient la taxe sur la valeur ajoutée lorsqu'elles expédient leurs propres marchandises. Allez-vous leur accorder une déduction au titre du fret détaxé?

Le président: Enfin, si vous faites un achat qui vous est livré, vous devez payer la taxe. Le fait que la livraison ait été gratuite, autrement dit qu'on ne vous ait imputé aucun frais précis pour la livraison. . .

M. Dorin: Le coût du service est ajouté au prix.

Le président: Justement.

M. Friedman: Oui, mais dans la mesure où le transport à destination de l'étranger n'est pas taxé, vous devez assurer le même traitement à la société qui a son propre service de transport parce qu'elle doit ajouter le fret à son prix de vente et payer la taxe. Il y a donc là une disparité.

Il est donc clair que si vous ne taxez pas tout, ceux qui devront acquitter la taxe pousseront des hauts cris. Sears voudra savoir pourquoi, ayant ses propres camions, elle doit percevoir la taxe sur la composante fret de ses factures.

Le président: Je vois. D'accord.

M. Friedman: Je comprends que vous vouliez simplifier le régime autant que possible. Or, en faisant cela, vous risquez que d'autres groupes d'intérêt vous accusent d'être injuste.

Voilà pour ce qui est du transport des marchandises. Tout comme pour les institutions financières, vous recevrez de nombreux mémoires sur la question délicate des transports, étant donné tout particulièrement la taille du Canada et notre proximité aux États-Unis et l'impression qui règne dans ce secteur que l'expédition de marchandises par les États-Unis présente quelque avantage.

Le président: De fait, c'est le principal problème des camionneurs à l'heure actuelle. Ils me disent que dans le sud de l'Ontario, il est de loin préférable de transporter par camion les marchandises vers l'ouest du Canada en passant par les États-Unis. D'abord, parce que le plein d'essence coûte bien moins cher. En plus, les routes sont en bien meilleur état et les trajets sont même parfois plus courts. C'est plus avantageux de passer par les États-Unis que par le Canada.

M. Friedman: Voilà, nous avons discuté de toutes les grandes questions. Par ailleurs, je trouve les mesures de transition assez préoccupantes. Sur 174 pages, le Livre blanc y consacre une page, page 116.

Le président: De quelle page s'agit-il?

M. Friedman: De la page 116 dans la version française et 107 dans la version anglaise. Les recettes provenant de la taxe de vente fédérale dépasseront vraisemblablement les 14 milliards de dollars cette année. Par conséquent, il est probable que pendant la période de transition. . . les importateurs grossistes, détaillants et entrepreneurs en

[Texte]

in work in progress. Those goods are taxed at a combination of zero, 8%, 12% and 18%, at the manufacturer, wholesaler or retailer levels. One might need a random number generator to extract the correct refund amounts.

• 1030

I do not want to steal Peter's thunder here, so he will spend some time on transitional issues. I am not sure page 5-1 has been bound into your copies, but I think Peter can give you a fairly reasonable summary of what is on that page.

Mr. Peter H. Wood (Committee Consultant): As Andy suggests, there are a number of interesting and difficult issues surrounding transition, and there is an additional level of complexity, of course, in a national sales tax, because not only is there federal sales tax sitting in the system, there would also be various provincial sales taxes in the system.

I have split it down into six general categories I would like to talk about in turn. First, as Andy alluded to, there is the existing sales tax in the system. Presumably there would be some relief, although it might be partial relief. The second major category is fixed-price contracts, and what you do with those, where the vendor is able to recover from the purchaser the additional tax burden—or it could go the other way, that in fact the vendor gets a tax advantage. The third general category is straddle transactions, or transactions that straddle the start-up date. We will talk about those. We will talk about the mechanics of pricing for the business that has to reset its prices as a result of the changes, the impact on prices themselves, on the price level, and some of the problems in education.

Turning first to the question of rebates of the existing tax content in the system, you can split that down into inventory, supplies, and capital goods. With inventory, the goods the businesses hold for resale, clearly there will be some federal sales tax content in some goods and not in others. As Andy said, there will be a number of different effective rates in that content. So the retailer indirectly will have paid a number of different rates, and wholesalers may have inventory there is still federal sales on. Manufacturers, where they have imported goods and they do nothing else than wholesale them, in effect, would also have a sales tax content in those inventories.

The government says there will be some relief on inventory. However, there are a lot of administrative details behind relieving inventory that are implicit in the suggestion. First of all, the business has to prove it had that inventory as of the transition date. Does everyone have to go out and count inventory on the eve of the change? How do you value that inventory? How do you sort out what it really cost you for those goods? What was

[Traduction]

construction du Canada auront pour plusieurs milliards de dollars de taxes de vente remboursables, de stocks ou de travaux en cours. Ces divers bien sont taxés à des taux de zéro, 8 p. 100, 12 p. 100 et 18 p. 100 aux niveaux du fabricant, du grossiste ou du détaillant. Il faudra peut-être utiliser la méthode des nombres aléatoires pour obtenir le montant du remboursement.

Je ne veux pas voler la vedette à Peter, je lui donne donc la parole pour parler des mesures de transition. Je ne sais pas si la page 5-1 se trouve dans votre exemplaire mais je pense que Peter pourra vous résumer ce qui s'y trouve.

M. Peter H. Wood (conseiller du Comité): Comme le dit Andy, la période de transition soulève plusieurs questions difficiles et intéressantes et la taxe de vente nationale ne fait qu'ajouter à la complexité car il y a aussi tous les régimes de taxe de vente provinciale.

Il y a six catégories générales dont j'aimerais vous parler. D'abord, comme Andy l'a mentionné, il y a la taxe de vente actuelle. Je suppose qu'il y aurait des mesures d'allègement, quoique partielles. Les contrats à prix fixe constituent la deuxième catégorie principale; quel régime faut-il prévoir quand le vendeur transmet la charge fiscale supplémentaire à l'acheteur ou, inversement, quand c'est le vendeur qui obtient l'avantage fiscal. Troisièmement, il y a les transactions qui sont à cheval entre le régime actuel et le nouveau régime. Nous allons en parler tout à l'heure. Nous parlerons aussi de l'établissement des prix pour les entreprises qui sont obligées de modifier leurs prix à la suite des changements, de l'évolution des prix en général et de certains problèmes reliés à l'information.

Quant aux dégrèvements prévus pour le régime fiscal actuel, on peut faire trois catégories: les stocks, les fournitures et les biens d'équipement. En ce qui concerne les stocks, les articles détenus par les entreprises pour la revente, il est évident que certains articles comporteront un élément de taxe de vente fédérale et d'autres pas. Comme l'a dit Andy, cet élément aura été déterminé par divers taux réels. Ainsi, le détaillant aura payé indirectement plusieurs taux réels et les grossistes pourraient avoir des stocks qui sont encore soumis à la taxe de vente fédérale. Quant aux fabricants, s'il s'agit de marchandises importées pour lesquelles ils agissent uniquement comme grossistes, leurs stocks comportera aussi un élément de taxe de vente.

Le gouvernement parle de mesures d'allègement en ce qui concerne les stocks. Évidemment, cela implique beaucoup de formalités administratives. Tout d'abord, l'entreprise doit prouver qu'elle avait ces stocks au moment de la transition. Tout le monde devra-t-il faire un inventaire la veille de l'entrée en vigueur du nouveau régime? Comment établit-on la valeur des stocks? Comment déterminer le coût réel des articles en

[Text]

the flow? Which set of shoes did you sell; or where they are all the same product, which—

The Chairman: But you do that everywhere. You do that at the year-end of every corporation anyway. That is not really a big deal.

Mr. Friedman: Oh, yes, it is.

Mr. Wood: If you ask every business—

The Chairman: You close the joint and you get all your office staff to count inventory and the chartered accountant stands around and checks it off.

Mr. Friedman: Can you close the door at Eatons across Canada on December 31 and count everything and figure out who paid the tax, on what base, and at what rate?

Mr. Wood: Would you shut down every business in Canada for that day for this inventory count?

The Chairman: Why not?

Mr. Wood: National Inventory Day.

The Chairman: That might be a hell of a good idea.

Mr. Wood: Obviously there are a number of problems—

The Chairman: We shut virtually every business down on Christmas Day, so why not?

Mr. Friedman: You can have an inventory count as long as you do not make anybody work on that date.

Mr. Layton: Inventory counting adds no value.

Mr. Friedman: As long as you do it before January 1.

Mr. Wood: And the accountants would issue the bills before the—

Mr. Friedman: Prepaid bills.

Mr. Wood: So on inventory the government has said there would be some relief. Although there are not a lot of details, there are significant ones to be worked out.

The other thing people of course will have on hand, particularly the service businesses, is supplies, stationery and everything else, which would have federal sales tax content. There is no suggestion in the paper that there would be any relief for those kinds of items. It is only inventory that—

The Chairman: Are they not inventory?

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Mr. Wood: No, inventory is something that is held for resale, whereas supplies are just held for use in the provision of your services.

Mr. Minaker: What about services that are pre-billed?

Mr. Wood: Okay, that is coming up in my straddle transactions.

[Translation]

question? Quelle quantité des diverses sortes d'articles a été vendue; ou s'agissait-il du même produit, ce qui. . .

Le président: Mais il faut le faire chaque année. C'est ce que fait chaque entreprise à la fin de l'année. Ce n'est pas une grosse affaire.

M. Friedman: Au contraire.

M. Wood: Si vous demandiez à toutes les entreprises. . .

Le président: On ferme boutique, on demande à tout le personnel de bureau de faire l'inventaire, et le comptable coche les articles sur la liste.

M. Friedman: Peut-on fermer tous les magasins Eaton au Canada le 31 décembre pour faire l'inventaire de tout, déterminer qui a payé la taxe, et quels ont été les taux?

M. Wood: Fermerait-on toutes les entreprises canadiennes ce jour-là pour faire cet inventaire?

Le président: Pourquoi pas?

M. Wood: Ce sera le jour national de l'inventaire.

Le président: Cela pourrait être une sacrée idée.

M. Wood: Évidemment, il y a plusieurs problèmes. . .

Le président: Nous fermons presque toutes les entreprises le jour de Noël, alors pourquoi pas?

M. Friedman: On peut faire l'inventaire pourvu que personne ne soit obligé de travailler ce jour-là.

M. Layton: Faire l'inventaire n'ajoute pas à la valeur.

M. Friedman: Pourvu qu'on le fasse avant le 1^{er} janvier.

M. Wood: Et les comptables établiraient les factures avant le. . .

M. Friedman: Les factures payées d'avance.

M. Wood: Le gouvernement a promis des mesures d'allègement en ce qui concerne les stocks. Même si nous n'avons pas beaucoup de détails, il y a des modalités importantes à déterminer.

L'autre catégorie de marchandises comportant un élément de taxe de vente fédérale, notamment dans les entreprises du secteur des services, ce seront les fournitures, la papeterie et tout le reste. Le document ne mentionne pas de mesures d'allègement dans ce cas-là. Ce sont seulement les stocks qui. . .

Le président: Ne doit-on pas les considérer comme des stocks?

M. Wood: Non, les stocks, ce sont des articles gardés pour la revente tandis que les fournitures sont nécessaires pour la prestation des services.

M. Minaker: Qu'en est-il des services qui sont facturés d'avance?

M. Wood: C'est quelque chose qui est traité dans les transactions à cheval entre les deux régimes.

[Texte]

The other things, of course, in which there is federal sales tax potentially buried are capital goods, so to the extent that—

The Chairman: You know, in an office I treat paper that we have on hand as inventory.

Mr. Friedman: How about the pencil on your desk? Do you count that?

The Chairman: Yes, pencils are inventory. They are all inventory.

Mr. Layton: Elastic bands.

The Chairman: They are inventory. I mean, we have to replace them now and then, you know. We have to buy more from time to time.

Mr. Friedman: So if I got a balance sheet, if you have financial statements I would see an item—

The Chairman: I just do not bother showing it on my financial statement because we expense it all.

Mr. Friedman: Exactly.

The Chairman: But if you were to say to me you expensed all that, therefore we are coming to pick it up and take it out to the garbage so you can start brand new on sales tax one day, I would object like hell. So from that point of view, I treat that as inventory. I mean, it is inventory that I expensed, but so what? It is still inventory.

Mr. Wood: Accountants have a relatively clear distinction between inventory and supplies. As well, for income tax purposes there has been a distinction over time, you know, and it is why it is held for resale.

The Chairman: But the reason you have that is because for income tax purposes you are allowed to write as an expense of the operation certain inventory items off the moment you take them in.

Mr. Wood: And also related back to the old 3% inventory allowance as well, you know that 3% allowance that you had you got on inventory but not on supplies.

The Chairman: Yes.

Mr. Wood: The other significant issue though was on capital goods. You could think of a fellow who bought a plant or built a plant just before the implementation. Most of that plant would have federal sales tax content in it, but if he waited until after the system came in to build the plant, then there would be no tax content in it because he is carrying on business. So you can see obviously on all capital good purchases for the period before the system is implemented there will be incentive for some people to delay until after the new system is in place, and on the other hand there may be incentive for other people to speed up the transaction. For instance, depending on what one believes is going to happen to house prices, you might want to buy before the date

[Traduction]

Les biens d'équipement peuvent aussi comporter un élément de taxe de vente fédérale dans la mesure où. . .

Le président: Vous savez, dans mon bureau je considère que nos stocks de papier sont déclarés dans l'inventaire.

M. Friedman: Et que faites-vous pour les crayons qui sont sur votre bureau?

Le président: Oui, les crayons font partie aussi des stocks.

M. Layton: Les élastiques.

Le président: Tout ça entre dans les stocks. Après tout, il faut les remplacer de temps à autre, vous savez. Il faut en acheter de nouveaux.

M. Friedman: Ainsi, dans votre bilan, ou vos états financiers je vois un article. . .

Le président: Je ne le mentionne pas dans les états financiers parce que cela entre dans la catégorie des dépenses.

M. Friedman: Exactement.

Le président: Mais si vous me disiez que tous ces articles ont été déclarés comme dépenses et que nous allons venir ramasser tout ce qui reste pour le jeter à la poubelle pour que vous recommenciez à neuf le jour où entre en vigueur la nouvelle taxe de vente, je m'y opposerais violemment. Donc, de ce point de vue-là, je les considère comme des stocks déclarés dans l'inventaire, même si ce sont des dépenses.

M. Wood: Les comptables font une distinction assez nette entre les stocks et les fournitures. En plus, la Loi de l'impôt sur le revenu précise qu'il doit s'agir d'articles gardés pour la revente.

Le président: Mais la raison de cette disposition de la Loi de l'impôt sur le revenu, c'est qu'on peut déduire comme dépenses les frais reliés à certains articles des stocks au moment de leur acquisition.

M. Wood: Mais vous savez que l'ancien dégrèvement fiscal afférent aux stocks, un dégrèvement de 3 p. 100, s'appliquait aux stocks mais pas aux fournitures.

Le président: Oui.

M. Wood: L'autre catégorie importante était les biens d'équipement. Prenons le cas de quelqu'un qui achète une usine juste avant l'entrée en vigueur du nouveau régime. La taxe de vente fédérale se sera appliquée à la plupart des éléments de cette usine mais, s'il attendait le nouveau régime pour construire l'usine, la transaction sera exonérée de taxe car il s'agit de l'exploitation d'une entreprise. Certaines personnes auront donc intérêt à retarder l'acquisition de biens d'équipement jusqu'à l'instauration du nouveau régime et, pour certaines autres, il sera peut-être avantageux d'accélérer la transaction. Par exemple, selon l'idée que l'on se fait de l'évolution des prix des maisons, on voudra peut-être acheter une maison avant ou après la date du nouveau

[Text]

rather than after. So there are a number of transitional rules related to capital type—

The Chairman: It is probably even greater with respect to somebody who is renting out commercial space. For building one, a brand-new building, the owner gets his sales tax all back again. On building two, the sales tax has been paid so there is nothing to deduct against. . .

Mr. Friedman: Exactly.

The Chairman: So you are going to create a very unfair situation.

Mr. Friedman: It is even deeper than that, because if we got a tax in 1989, you built the building in 1988 and somebody else built their building in 1968, how do you depreciate the tax refund? Is there a sliding scale of what you would get back since some of that building has been used? I am not sure what the answer is.

The Chairman: We could not do that. You cannot give them any rebate.

Mr. Friedman: Well, you have to give them rebates.

Mr. Wood: What the government proposal here says is that there would only be rebates with respect to inventory, and we are just saying that there is an issue with respect to capital goods that I am sure you will hear about.

Mr. Friedman: And the question is whether in your case of the rental property that is inventory to the renter. I mean, if you are a renter of tractors or whatever, does the same problem exist? I am not sure.

The Chairman: Sure. If you are renting out, sure. A car rental agency.

Mr. Wood: Exactly.

Fixed price contracts is sort of the next general issue. We have had this problem for a number of years in federal sales tax and I am sure many of the members have heard of the problems. There has almost never been any relief for federal sales tax in fixed price contracts. The paper suggests maybe circumstances in which it is appropriate to have some relief, but does not outline the circumstances.

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There are a couple of approaches. The extreme one is that businesses should have built it into their contracts. They put other things in their contracts for price adjustments, so they should also build in tax clauses. We have heard that for many years.

The other approach is one that was followed in New Zealand, in which a fixed-price contract entered into before the announcement date of all the details was zero rated for the life of the contract, until the next time the contract could be renegotiated. So those were handled by zero rating; therefore there would be no deduction at the next level. Of course, the business paying, say, the rent,

[Translation]

régime. Ainsi il y a plusieurs règles concernant la période de transition. . .

Le président: L'avantage est probablement encore plus prononcé dans le cas d'un locataire de locaux commerciaux. Dans le cas d'un immeuble neuf, le propriétaire se fait rembourser toute la taxe de vente. Pour un autre immeuble, la taxe de vente a déjà été payée et il n'y a donc pas de possibilité de déduction. . .

M. Friedman: Exactement.

Le président: Alors vous allez créer une situation très injuste.

M. Friedman: Cela va encore plus loin car, si nous avons une taxe en 1989, et qu'il y a deux immeubles, l'un construit en 1988 et l'autre en 1968, comment établir le montant non amorti du remboursement fiscal? Existe-t-il une échelle mobile pour déterminer le montant du remboursement à cause de l'utilisation de l'immeuble? Je ne suis pas sûr de la réponse.

Le président: On ne pourrait pas le faire. On ne peut pas accorder de remboursement.

M. Friedman: Eh bien, il le faudra.

M. Wood: D'après la proposition du gouvernement ici, il y aura des dégrèvements afférents aux stocks seulement et nous vous signalons que la question des biens d'équipement va sûrement être soulevée.

M. Friedman: Et il s'agit de savoir, dans le cas d'un bien de location, si le propriétaire peut le déclarer dans son inventaire. Si vous louez des tracteurs ou autre chose, le même problème se pose-t-il? Je n'en suis pas sûr.

Le président: Évidemment. Si vous faites de la location, c'est évident. Une agence de location de voitures.

M. Wood: Exactement.

Je passe ensuite aux contrats à prix fixe. C'est un problème épineux pour la taxe de vente fédérale depuis des années et un grand nombre d'entre vous doivent être au courant. Il n'y a presque jamais eu de dégrèvement pour la taxe de vente fédérale dans les contrats à prix fixe. Le Livre blanc mentionne des circonstances où ce dégrèvement sera peut-être approprié mais ne donne pas de précision.

Il y a différentes façons de procéder. Une façon extrême serait d'obliger les entreprises à en tenir compte dans leurs contrats. L'ajustement des prix est prévu pour d'autres éléments du contrat, alors il devrait être possible d'en faire de même pour la taxe. C'est un argument que nous entendons depuis longtemps.

Il y a aussi l'approche suivie en Nouvelle-Zélande, selon laquelle un contrat à prix fixe conclu avant la date où toutes les modalités du nouveau régime ont été annoncées avait un taux d'imposition zéro pendant toute sa durée, jusqu'au moment du renouvellement. Ainsi, on prévoyait un taux d'imposition zéro et il ne pouvait pas y avoir de déduction au stade suivant. Évidemment,

[Texte]

would get no deduction for the commercial rent because that particular contract had been zero rated. And that could work through the system. It would be much more difficult under a GST, where there is no explicit invoicing to allow that sort of thing to operate than it would be under a credit invoice VAT.

The Chairman: We are going to see this in New Zealand. The question is, how do they handle it by the subtraction method?

Mr. Friedman: They do not have the subtraction method.

The Chairman: Sure they do.

Mr. Friedman: No, they do not. If you will turn back to page 3-1, where we got into this. . .

The Chairman: People are entitled to pay their tax by the subtraction method on the alternate system.

Mr. Friedman: Page 2-1 says that New Zealand GST is not equivalent to Canadian GST; New Zealand GST is closer to the traditional credit invoice method.

The Chairman: Sure, but you are entitled to use both methods in New Zealand, are you not?

Mr. Friedman: No, you are not. You are entitled to derive the tax to use the invoice credit method in two ways, but there is only one method of computing the tax.

The Chairman: All right.

Mr. Friedman: But you are going on to New Zealand, and it is probably something that you want to get more comfortable with.

The Chairman: I want to see exactly how they handle it.

Mr. Friedman: Exactly.

The Chairman: What really amazes me is the suggestion that everything is so swimmingly tremendous, and we are just looking at complications and the problems that are there. All the reports coming back say this is great stuff.

Mr. Dorin: I talked to somebody who went to New Zealand, and he said it was a disaster.

Mr. Friedman: This book is fairly thick, and it deals on transitional issues, of which we have been talking for the last half hour. It has just one sentence in each area. So if we dealt with all the problems, it might be bigger than the Toronto phone book. So there are problems, but with the 22,000 or so rulings under the current federal sales tax system, there are a lot of problems there too. If we keep coming back to that in striving for an equal, fair, and honourable system, we are going to have to pay something in terms of complexity.

Mr. Wood: The next area I would like talk about is straddle transactions. These straddle the startup date. There are all kinds of situations there. What if I get a

[Traduction]

l'entreprise qui paie un loyer n'obtiendrait pas de déduction puisque le contrat était fixé un taux d'imposition zéro. Et ainsi de suite, tout le long du système. Ce serait beaucoup plus difficile avec une TBS, où il n'y a pas de système de facturation permettant ce genre de mesure, que sous un régime de TVA.

Le président: Nous allons voir comment cela se passe en Nouvelle-Zélande. Mais je me demande comment ils peuvent le faire par la méthode de la soustraction?

M. Friedman: Ils n'ont pas cette méthode.

Le président: Au contraire.

M. Friedman: Non. Vous verrez à la page 3-1 où nous abordons cette. . .

Le président: Les gens ont le droit de payer leurs taxes par la méthode de la soustraction.

M. Friedman: A la page 2-1, on signale que la TBS en Nouvelle-Zélande n'est pas comparable à la TBS canadienne; en Nouvelle-Zélande, elle ressemble davantage à la méthode traditionnelle des crédits et des factures.

Le président: D'accord, mais on a le droit de se servir des deux méthodes en Nouvelle-Zélande, n'est-ce pas?

M. Friedman: On peut établir la taxe en utilisant la méthode des crédits et des factures, mais il y a une seule méthode de calculer la taxe.

Le président: Très bien.

M. Friedman: Mais vous allez en Nouvelle-Zélande, et vous voudrez sans doute obtenir davantage de précision.

Le président: Je veux voir comment ils s'y prennent exactement.

M. Friedman: Effectivement.

Le président: Ce qui m'étonne, c'est que le Livre blanc laisse entendre que tout va bien, et nous ne faisons que voir des complications et des problèmes. D'après tous les rapports que nous recevons, ce sont des procédés excellents.

M. Dorin: J'ai parlé à quelqu'un qui revient de Nouvelle-Zélande, et il m'a dit que c'était catastrophique.

M. Friedman: Ce document est assez épais et parle des questions de transition dont nous traitons depuis 30 minutes. Il y a seulement une phrase consacrée à chaque domaine. Si nous devions examiner tous les problèmes, le livre serait sans doute plus épais que l'annuaire téléphonique de Toronto. Il y a effectivement des difficultés, mais compte tenu des 22,000 décisions rendues dans le cadre de notre régime actuel de taxe de vente fédérale, il y a déjà beaucoup de problèmes. Alors, si nous voulons avoir un régime égal, juste et honorable, il va falloir accepter un certain degré de complexité.

M. Wood: J'aimerais maintenant parler des transactions qui sont à cheval entre les deux régimes. Il y a toutes sortes de situations possibles. Que se passe-t-il si je rejoins

[Text]

retainer for the client before and the services are delivered after? What if I provide the services before the startup date and bill after? I prepay my subscription to *Hansard* for the next 50 years just before the date, what happens to that? There are a number of things surrounding straddle transactions and a number of anti-avoidance sort of rules that would have to be put in place.

Mr. Friedman: Straddle transactions, as far as the business goes, should not bother you, because you get a credit.

Mr. Wood: It is just consumers, or an exempt organization.

Mr. Friedman: That is right. I may want to send my \$20,000 cheque to my divorce lawyer in advance to save the \$2,000 in taxes.

Mr. Wood: On pricing, the mechanical side, this will be a problem to businesses. They will have to sort out the impact of the new system and what the impact will be on the federal sales tax rebates that they will get directly or indirectly when negotiating with suppliers. How do you go about changing your prices overnight on whatever the date is? Do you have two labels and you pull one off? There are many issues for retailers on how overnight they adjust their prices.

• 1045

Mr. Friedman: I am going to read from the New Zealand price change-over, because it is kind of interesting. It is just one little area, and it is a bulletin on price-marking for the change-over:

Retailers will be faced with a daunting task on the night of Tuesday 30 September 1986 unless they plan well ahead. Dual pricing is the key to a smooth changeover, particularly in businesses selling relatively small value items. The timing of the start of dual pricing will depend on stock turn. Some retailers could start dual pricing from 1 July 1986,

—which is four months before the change-over—

for example, while supermarkets might only need to dual price for a month or less. Dual pricing can take a number of forms, from the very simple to the sophisticated.

At its simplest, dual pricing means putting two stickers or tags on every item, using two distinct colours for "before" and "after". Remember, though, that "before" stickers will be discarded from the night of 30 September 1986 onwards, so that the colour of the "after" stickers should be a "normal" colour.

[Translation]

un acompte de la part du client et que les services sont rendus après? Que se passe-t-il si j'offre les services avant l'entrée en vigueur du nouveau régime et que je le facture après? Je peux payer mon abonnement au *Hansard* pour les 50 prochaines années juste avant la date. Comment faut-il traiter cette transaction? Il y a donc plusieurs aspects à examiner et diverses règles qui seront nécessaires pour empêcher l'évitement fiscal.

M. Friedman: Pour ce qui est de l'entreprise, il n'y a pas à s'inquiéter de ces transactions à cheval entre les deux régimes, parce qu'on reçoit un crédit.

M. Wood: Ce sont seulement les consommateurs ou les organismes qui sont exonérés.

M. Friedman: C'est exact. Je déciderais peut-être d'envoyer à l'avance un chèque de 20,000\$ à l'avocat qui s'occupe de mon divorce pour éviter les 2,000\$ en taxes.

M. Wood: Pour ce qui est de l'établissement des prix, cela va poser un problème aux entreprises. Lors des négociations avec les fournisseurs, elles devront déterminer l'effet du nouveau régime et aussi les dégrèvements directs et indirects de la taxe de vente fédérale. Comment fait-on pour changer ses prix du jour au lendemain quand le nouveau régime entre en vigueur? Doit-on remplacer une étiquette par une autre? Il y a beaucoup de choses à mettre au point pour cet ajustement des prix par les détaillants.

M. Friedman: Je vais vous lire un extrait d'un document sur le changement des prix en Nouvelle-Zélande. C'est un domaine assez restreint, et il s'agit d'un bulletin pour le marquage des prix en vue du nouveau régime:

Les détaillants devront faire face à une tâche décourageante le soir du mardi 30 septembre 1986 s'ils ne s'y sont pas préparés à l'avance. Le changement se fera sans difficulté grâce à un système de prix double, surtout dans les commerces qui vendent des articles à prix relativement modestes. L'introduction du système de prix double dépendra de la rotation des stocks. Certains détaillants pourraient le mettre en pratique à partir du 1^{er} juillet 1986,

... ce qui précède de quatre mois l'entrée en vigueur du nouveau régime. . .

par exemple, tandis que les supermarchés n'en auront peut-être pas besoin pour plus d'un mois. Il y a toute une gamme de méthodes possibles allant de la plus simple à plus complexe.

Dans sa forme la plus simple, il s'agit de mettre deux étiquettes sur chaque article, en utilisant des couleurs différentes pour «avant» et «après». Il faut se rappeler que les étiquettes «avant» seront enlevées à partir du 30 septembre 1986 au soir, de sorte que la couleur utilisée pour les étiquettes «après» devrait être la couleur qu'on utilise habituellement.

[Texte]

Where tags or similar are used, removeable self-adhesive stickers showing the "before" price can be placed over the "after" price on the tag and removed on the night of the changeover.

Users of labelling machines should make inquiries of the distributors. Some distributors have dual pricing systems available for marking short-term "specials".

This is an extract. So you are going to have to educate all retailers to put two prices on there and to make sure that the clerks do not mess around by making as permanent the lower price instead of the higher price. I have read this just as an indication of some of the tasks ahead.

Mr. Wood: So while they are taking inventory they change the price-tags at the same time?

Mr. Friedman: No, you just have to keep tearing it off. How many cans would a supermarket have—a few thousand? So you just tear them off; one person can do it.

The problem here—and Peter alluded to this and he is going to talk about it—is that it cannot be exactly 10% different, because kitty litter, which is now taxed at the wholesale level, has a tax of 12% currently and if you go to an 8% or a 10% tax then maybe you will see a drop in tax or maybe you will see a 2% increase.

The Chairman: They do not even put stickers on these things now anyway. Bar graphs on the label indicate the class of goods, and it is just read automatically by the machine at the check-out counter.

Mr. Friedman: But what do you do in the 24-hour convenience store with two shelves?

The Chairman: He has a problem, unless he has this bar-graph reader.

Mr. Friedman: That is right. Or if you go to the souvenir shop here in the Parliament Buildings, the clerk does not have a bar graph. So it might be okay for some places, but you were saying about the...

Mr. Minaker: It depends on how much it costs to double-price the thing. It might be cheaper for me as a marketing person just to have a discount month and use the prices you had before and discount the price equal to the tax. If the tax is 8%, it might cost you for labour and all the other things 10% or 12%; so it may be cheaper for me just to say I am going to sell at a discount month—like at Hudson's Bay they have discount days—and it would be equal to the tax. So when the person buys—

Mr. Layton: A pre-inventory sale, so you will not have to—

Mr. Minaker: You move the inventory over in a month.

Mr. Friedman: The New Zealand one suggests that it should not cost you anything more if you start pricing as you bring goods in, so that six months before the change-over you will have "pre" and "after" prices.

[Traduction]

Les étiquettes peuvent être munies d'un autocollant indiquant le prix «avant» et celui-ci sera enlevé le soir du changement.

Les utilisateurs d'appareils d'étiquetage devraient se renseigner auprès des distributeurs, certains pouvant offrir un service de prix double pour marquer les articles en promotion.

Voilà donc l'extrait. Il faudra donc informer tous les détaillants au sujet d'un système de prix double et veiller à ce que les vendeurs ne prennent pas le prix inférieur pour le prix permanent. Je vous lis ce bulletin pour vous donner une idée de l'ampleur de la tâche.

M. Wood: Ainsi, pendant qu'ils font l'inventaire, ils peuvent changer les étiquettes de prix en même temps?

M. Friedman: Non, il faut les enlever. Combien de boîtes trouve-t-on dans un supermarché—quelques milliers? Il faut donc les enlever; une personne pourra le faire.

Le problème, comme l'a mentionné Peter, c'est qu'il ne peut pas y avoir une différence d'exactly 10 p. 100 car, dans le cas d'une litière pour chat, qui est maintenant imposée au niveau de gros à 12 p. 100, avec une taxe de 8 ou de 10 p. 100, il pourrait y avoir une baisse ou une augmentation de 2 p. 100.

Le président: De toute façon, il n'y a même plus d'autocollant sur ces produits. Les codes en bâtonnet indiquent la catégorie d'article, et c'est la machine qui inscrit le prix automatiquement à la caisse.

M. Friedman: Que fait-on dans les petits dépanneurs?

Le président: Il y a un problème, à moins qu'on ait une lectrice de code.

M. Friedman: Oui. Dans la boutique de souvenirs ici au Parlement, on n'a pas ce système de code en bâtonnets. Cela pourrait servir dans certains endroits, mais vous disiez...

M. Minaker: Cela dépend du coût que représente le marquage des prix en double. Le détaillant pourrait trouver que c'est plus avantageux d'offrir des prix réduits pendant un mois en fonction de la nouvelle taxe. Si c'est une taxe de 8 p. 100, toutes les mesures d'ajustement pourraient coûter 10 p. 100 ou 12 p. 100 en main-d'oeuvre, etc.; il pourrait décider d'offrir des remises pendant un mois, comme on fait à La Baie, et ce serait un montant égal à la taxe. Ainsi quand la personne achète...

M. Layton: Comme des soldes pré-inventaires pour ne pas...

M. Minaker: Et on fait la rotation des stocks dans un mois.

M. Friedman: D'après ce bulletin néo-zélandais, la transition ne devrait pas représenter des coûts supplémentaires si on commence à indiquer les deux prix avec les nouveaux stocks. Ainsi, pendant les six mois qui

[Text]

Mr. Minaker: It depends on your inventory turnover.

Mr. Friedman: It does require a lot of planning. So if you plan on introducing this with three months' notice then some of the retailers will have some problems.

Mr. Wood: As you can see, there are a number of problems surrounding pricing. On the impact on prices, as one economist said, it is very clear that prices could go up, go down, or stay the same.

The Chairman: I heard that said yesterday.

Mr. Wood: But the thing is that if there is no net gain in revenue, if in fact it is neutral and you are just switching from federal sales tax to the new tax for revenue, and if all the federal sales tax reductions are passed on in the system, then it is theoretically possible—

The Chairman: There will be no change in prices.

• 1050

Mr. Wood: You are quite right, there would be no change in prices.

The Chairman: Theoretically that is right.

Mr. Wood: On top of that, the consumer should have more money in his pocket through personal tax cuts and enhanced rebates and the 2% or 3% real growth that should result from this new system.

Mr. Friedman: I might point out, and you can check back, that when the exemptions were taken off clothing, the government had real problems in persuading manufacturers to pass that on right down all the trade levels. Whether the same problem occurs when you switch from a manufacturer's sales tax to a multi-stage sales tax, your guess is as good as mine.

Lorey should probably comment, if he wants to comment, on effect on prices.

Mr. Hoffman: I think you have already heard a sound prescription.

Mr. Minaker: Mr. Chairman, I tell the story I told in Washington. They asked a mathematician, an economist, and a politician what the number nine meant. The economist said that it was a number between eight and ten; the mathematician said it is three squared; and the politician said what would you like it to be?

Mr. Friedman: That is an old accountant's joke.

Mr. Minaker: It got a better laugh in Washington.

Mr. Friedman: We have heard it. It is an old accountant's joke. What is two plus two? What do you want it to be?

[Translation]

précèdent le changement, il y aura des prix «avant» et «après».

M. Minaker: Cela dépend de la rotation des stocks.

M. Friedman: Il faut évidemment beaucoup de planification. Si vous décidez d'introduire le système avec un préavis de trois mois, certains détaillants auront évidemment des problèmes.

M. Wood: Comme vous pouvez le constater, l'établissement des prix soulève certaines difficultés. Quant aux répercussions sur les prix, comme l'a dit un économiste, il est très clair que les prix pourraient monter, descendre ou rester les mêmes.

Le président: Je l'ai entendu hier.

M. Wood: Mais s'il n'y a pas de gain net de revenu, si c'est effectivement une mesure neutre qui remplace la taxe de vente fédérale par une nouvelle taxe, et si les réductions sont absorbées à chaque étape du système, en théorie il est possible. . .

Le président: Il n'y aura pas de changement de prix.

M. Wood: Vous avez raison, il n'y aura pas de modification de prix.

Le président: En principe.

M. Wood: En outre, le consommateur devrait avoir davantage d'argent dans ses poches à cause de la réduction de l'impôt des particuliers, des remboursements supplémentaires et du taux de croissance réel de 2 ou de 3 p. 100 que devrait permettre ce nouveau régime.

M. Friedman: Je vous signale que, quand les vêtements ont été exonérés, le gouvernement avait beaucoup de mal à convaincre les fabricants d'en faire profiter tous les niveaux du commerce. Quant à savoir si on aura le même problème quand on remplacera la taxe de vente à la fabrication par une taxe de vente multi-stades, je ne suis pas en mesure de le prévoir.

Lorey aura peut-être des observations à faire sur l'évolution des prix.

M. Hoffman: Je pense que vous avez déjà entendu un avis valable.

M. Minaker: Monsieur le président, je voudrais raconter une histoire que j'ai entendue à Washington. On a demandé à un mathématicien, à un économiste et à un politicien ce que signifiait le numéro neuf. D'après l'économiste, c'est le nombre entre 8 et 10; le mathématicien a répondu que c'est trois au carré et le politicien a dit «que voulez-vous que ce soit»?

M. Friedman: C'est une vieille blague de comptable.

M. Minaker: Ils l'ont trouvée plus drôle à Washington.

M. Friedman: Nous l'avons entendue. C'est une vieille blague de comptable. Que font deux plus deux? Qu'est-ce que vous voulez que ça fasse?

[Texte]

Mr. Wood: On the last category, education, there are several levels. There are the businesses themselves that have to learn how to adapt to that system. I think you will find in New Zealand, when you visit there, that they had a very extensive education campaign. Presumably in our business environment the government will be able to rely on various professional associations and the tax community to help educate the businesses.

There are the taxing authorities themselves. Whoever they are it will be a major set-up job for them—the computer resources and so on that would be necessary to track all of what it is that has been designed.

And then we cannot forget the consumer. For instance, in the U.K., the government issued a number of price guides that told the consumer what the impact would be on prices. They had some taxes. They were unlike the federal sales tax, but they were relieved as with the new system. The guides would tell a consumer that the price of a car should go up or it should go down so that the consumer would be more educated in the marketplace in order to force the prices to go to where they should when the federal sales tax relief has been granted.

Mr. Friedman: That, of course, is a concern that if a consumer turns off one product the retailer will then go back to their supplier to force a price drop. That is, I guess, why it is very difficult to forecast where the prices go between competing goods and substituted goods.

Mr. Wood: And even the business itself, if they have not been involved in a federal sales system before, has to know how much to renegotiate with their suppliers to get the reduction in the federal sales tax. So there is a lot of education involved.

Mr. Friedman: We have seen this, by the way, where certain goods have moved to the wholesale level and retailers who are also wholesalers have to deal with it. When you tell them that there has been federal sales tax on most of the goods they sell, they have kind of a blank and puzzled look on their faces. And now you are asking them to deal with some other tax, both in the sense of refunds and in the sense of prices.

Mr. Wood: That is all I have to say on transition. Andy, do you have something else to add?

Mr. Friedman: Transitional issues are very important. That is the first stab that taxpayers, consumers, and tax collectors will have at it. If that is not handled well, then you will have problems. In talking to the U.K. people, they had a massive education exercise, and they came to the conclusion that they could not do it alone, that they needed associations, professional groups, whatever, to work with them. So in the deliberations of this committee, it would probably be useful to consult with some of the European authorities.

[Traduction]

M. Wood: Au sujet de la dernière catégorie, l'information, il y a divers aspects. Les entreprises elles-mêmes doivent apprendre comment s'adapter au nouveau système. Vous allez sans doute constater, lors de votre visite en Nouvelle-Zélande, qu'il y a eu une campagne d'information très poussée. Je suppose que le gouvernement pourra compter sur la collaboration des diverses organisations professionnelles et l'aide des fiscalistes pour préparer les milieux d'affaires.

Il y a aussi le fisc lui-même. Il lui faudra toutes les ressources nécessaires, en informatique, etc., pour suivre tous les nouveaux éléments.

Évidemment on ne peut pas oublier le consommateur. Au Royaume-Uni, par exemple, le gouvernement a préparé un certain nombre de guides qui indiqueraient aux consommateurs quel serait l'effet sur les prix. On introduisait certaines nouvelles taxes. Elles n'étaient pas semblables à la taxe de vente fédérale, mais on prévoyait des mesures d'allègement comme chez nous. Les guides disaient aux consommateurs que le prix d'une voiture allait monter ou baisser, et ce genre de renseignements permettait d'orienter l'évolution des prix dans le sens normal.

M. Friedman: Évidemment, il est possible que, si le consommateur se désintéresse d'un produit particulier, le détaillant peut s'adresser au fournisseur pour exiger une baisse du prix. Je pense que c'est pour cette raison qu'il est très difficile de prévoir quelle sera l'évolution des prix d'articles en concurrence, par rapport aux articles de substitution.

M. Wood: Et l'entreprise elle-même, si elle n'a pas été impliquée avant dans le système de taxe de vente fédérale, devra savoir comment négocier avec ses fournisseurs pour obtenir une réduction de la taxe de vente fédérale. Il y a donc beaucoup d'éducation à faire.

M. Friedman: À propos, nous avons vu cela en ce qui concerne la vente en gros de certains articles, et les détaillants qui sont aussi grossistes doivent s'y adapter. Quand on les informe qu'il y a eu une taxe de vente fédérale sur la plupart des articles qu'ils vendent, ils prennent un air perplexe. Et maintenant on leur demande de s'adapter à une nouvelle taxe, tant du point de vue des remboursements que de celui des prix.

M. Wood: C'est tout ce que j'ai à dire sur la transition. Andy, avez-vous quelque chose à ajouter?

M. Friedman: La transition est très importante. C'est le premier contact que les contribuables, les consommateurs et le fisc auront avec le nouveau régime. Si elle ne se déroule pas bien, il y aura des problèmes. Au Royaume-Uni, il y a eu une campagne d'éducation sur une grande échelle et on a conclu qu'il n'était pas possible de faire tout ce travail sans la collaboration des associations et des groupes professionnels. Je pense donc que des consultations avec les autorités européennes s'avèreraient utiles pour ce Comité.

[Text]

We are going to move on to relook at some of the problems.

The Chairman: Do you want to have a break right now, then?

Mr. Friedman: Sure.

The Chairman: Let us call a break for five minutes.

• 1055

• 1101

Mr. Friedman: We are going to talk about national sales tax, revisit some of the issues. Then we will end up summarizing and seeing what choices are available. It probably gives you another kick at the cat to see if there is something in this that still bothers you. It is really something you have to keep going back to, to fully understand. If you turn to page 6-1, Peter will cover constitutional issues and then I will take over again.

Mr. Wood: Whether it is a national sales tax, a GST, or a credit invoice VAT, any one of the options would in my view be a substantial improvement over the current federal sales tax.

We said that for the national sales tax the details in the papers were very sketchy, and there are perhaps two general approaches the government could take. We are not clear which one they are following. One would be some kind of tax rental agreement with the provinces, where, from a technician's viewpoint, it would be the best way possible, and a single rate right across and a common base. That would be the ideal. If that is possible, it would greatly simplify many people's lives.

With the other approach, without a constitutional amendment, as we know, under the constitution, provinces are limited to direct taxation within a province, and that may have a limit on the design, so the tax at the final stage would actually have to be imposed on the consumer, if the provinces wanted to have the control of that final level of taxation, and to ensure it was a direct tax. I assume that could be done. To the extent we have multiple rates and a different base, it adds to the complexity for business.

Mr. Weyman: I think one of the points that came out in the very first session was the distinction between a destination-based tax and an origin-based tax. Just as an observation, I think the multi-stage sales tax is essentially a destination-based tax. That is how you distinguish, particularly on the export side.

The reason exports are zero-rated, tax-free, is because you look at the destination of those goods. By its very nature, under the constitution, where you have the direct

[Translation]

Nous allons passer à l'examen d'autres problèmes.

Le président: Voulez-vous une pause maintenant?

M. Friedman: Volontiers.

Le président: Nous aurons une pause de cinq minutes.

M. Friedman: Nous allons parler de la taxe de vente nationale, reparler de certains aspects. Puis nous résumerons le tout pour terminer et nous verrons les choix qui s'offrent à nous. Cela vous donnera ainsi encore une fois l'occasion de voir si certaines choses vous gênent. Pour vraiment bien comprendre, il faut sans cesse revenir sur le sujet. Si vous voulez bien ouvrir votre document à la page 6-1, Peter parlera des questions constitutionnelles, et puis c'est moi qui reprendrai la parole.

M. Wood: Aussi bien une taxe nationale de vente, qu'une taxe sur les biens et services, ou qu'une TVA fondées sur le principe des crédits-factures, constitueraient à mon avis une amélioration importante par rapport au système actuel de taxe de vente fédérale.

Nous avons déjà dit qu'en ce qui concerne la taxe de vente nationale, les détails publiés jusqu'ici sont très vagues, et que le gouvernement a peut-être le choix entre deux solutions. Nous ne savons pas exactement laquelle il a retenue. Il y aurait notamment la possibilité de conclure avec les provinces une sorte d'accord de location fiscale, ce qui, du point de vue du technicien, serait la meilleure solution possible, avec un taux unique pour tout le pays et une base commune. Ce serait l'idéal. Si cela était possible, cela simplifierait énormément la vie à bien des gens.

Quant à l'autre solution, à moins que l'on ne modifie la Constitution, nous savons que les provinces ne peuvent imposer une taxe directe que sur leur territoire, et cela peut limiter les options, puisqu'il faudrait en fin de compte imposer la taxe aux consommateurs si les provinces voulaient contrôler le dernier niveau de taxation et s'assurer qu'il s'agirait bien d'une taxe directe. Je suppose que ce n'est pas impossible. Dans la mesure où cela entraînerait une variété de taux et des bases différentes, cela compliquerait la chose pour les entreprises.

M. Weyman: Je crois qu'on avait déjà parlé, à la toute première session, de la distinction qu'il faut faire entre les taxes en fonction de la destination et la taxe en fonction de l'origine. Je dirai simplement en passant qu'à mon avis, la taxe de vente multi-stades est essentiellement une taxe fondée sur la destination. C'est ainsi que l'on fait la distinction, notamment pour les exportations.

Les exportations sont en franchise de taxe, au taux zéro, parce que l'on tient compte de la destination des biens. De par sa nature même, en vertu de la Constitution, une

[Texte]

tax a province can impose, there is very much an origin tax. I do not know whether you would agree. You have that distinction in conflict, between the nature of the tax a province can impose and the nature of the tax a multi-stage sales tax should be.

Mr. Wood: I look at it the other way though, David, that it is really still a destination-based tax. It is where the consumption occurs, where the consumer is. Ontario, for instance, can only tax the consumer here.

The Chairman: Right. They cannot tax a producer because he sold goods somewhere else in another country.

Mr. Friedman: It is that old store fixture problem.

The Chairman: They have to sell to the ultimate consumer; otherwise it is not a direct tax, but an indirect tax. Clearly the only way you can run this thing is to have the federal government run it on some sort of an arrangement where the province is using the federal power of indirect taxation.

Mr. Wood: Yes, as far as running the administration, it could be.

The Chairman: It has to be run federally. You might have separate rates in certain areas of the country.

Mr. Wood: It could be possible that the federal government imposes it, but the administration that used the administrations of the various provinces, other than Alberta, obviously... You can have extensive administrations that are into all the small businesses already set up, and have them licensed and identified and have programs to audit. That presumably would be an option as well.

• 1105

Mr. Friedman: Provincial participation: before we leave this, it is important to note that no country now has this ability of states or provinces within the country imposing a separate rate along with a standard federal rate. Provinces will be able to opt out, and as Peter said before, they would just be considered to be taxed at the zero rate. What is not answered is how many provinces can opt out before... Is it practical to run the tax with, say, only Prince Edward Island opting in? That is a question that remains.

Leakage: you have the problem of leakage between provinces now. I suspect if you live in Ottawa there is an incentive to buy furniture in Quebec and certain other things, or an incentive to stay in a hotel in Quebec, because there is no provincial sales tax. The leakage problem exists, as we have talked about, outside Canada as well for consumers.

[Traduction]

taxe directe imposée par une province est une taxe fondée sur l'origine. Je ne sais pas si vous êtes d'accord. Il y a un conflit entre le type de taxe qu'une province peut imposer et ce que devrait être une taxe de vente multi-stades.

M. Wood: Je vois la chose autrement, David; j'estime que cela n'en demeure pas moins une taxe fondée sur la destination. Et la taxe est imposée à la consommation, aux consommateurs. L'Ontario, par exemple, ne peut imposer que les consommateurs résidant dans la province.

Le président: C'est exact. La province ne peut pas imposer une taxe au producteur parce qu'il a vendu des biens dans un autre pays.

M. Friedman: C'est le vieux problème du matériel.

Le président: Il faut vendre aux consommateurs, sans quoi ce n'est pas une taxe directe, mais bien une taxe indirecte. De toute évidence, cela ne peut fonctionner que si le gouvernement fédéral s'entend avec la province et lui délègue le pouvoir fédéral de taxation indirecte.

M. Wood: Oui, c'est possible sur le plan administratif.

Le président: Il faut que ce soit administré par le fédéral. Les taux pourraient varier selon les régions.

M. Wood: Le gouvernement fédéral pourrait faire l'imposition, mais son administration ferait appel à celle des provinces, sauf bien entendu dans le cas de l'Alberta... Il est possible d'avoir d'importantes administrations qui ont un pied dans toutes les petites entreprises existantes et on pourrait les licencier et elles pourraient être habilitées à faire des vérifications. C'est aussi une option.

M. Friedman: La participation des provinces: avant de passer à un autre sujet, il est important de signaler qu'il n'existe nulle part actuellement la possibilité pour des États ou des provinces d'un même pays d'imposer un taux distinct qui serait parallèle à un taux fédéral appliqué uniformément. Les provinces auront la possibilité de se retirer du régime, comme l'a déjà dit Peter, et on considérerait alors qu'elles seraient taxées à un taux équivalent à zéro. Ce qu'il faut se demander, c'est combien de provinces peuvent se retirer du régime avant que celui-ci... Serait-il pratique d'imposer une taxe fédérale si seulement l'Île-du-Prince-Édouard, par exemple, choisissait d'y adhérer? Voilà ce qu'il faut se demander.

Les pertes: il existe également le problème des pertes de taxe d'une province à l'autre. Si vous habitez Ottawa, vous êtes peut-être tentés d'aller acheter des meubles au Québec et certains autres articles qui ne sont assujettis à aucune taxe de vente provinciale, et vous êtes peut-être aussi tentés d'aller résider dans un hôtel du côté du Québec, étant donné que là non plus, la taxe de vente provinciale ne s'applique pas. Ce problème de fuite, dont

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There is a question of whether you could run such a tax with a dual collection mechanism, that in effect you could have a common tax base, but at the end of the month send one cheque to the provinces and one cheque to the federal government. They have even raised the issue of a separate provincial MSST, whether that is practical—in effect, that each province would administer their own multi-stage or value-added tax. They are just some things to think about.

Now, as for the tax base, somebody has suggested that perhaps we could have one tax administered by the federal government, but that each province could decide what should attract tax as far as the provincial part goes. I direct your attention to page 48, where the Department of Finance says:

Without a common base, little tax simplification would be possible. In many ways, the system could become more complex than it is today. The base for application of the federal rate would be uniform across Canada. If a province were to impose tax on a different base, then businesses operating in that province would need to do two separate tax calculations, one for each level of government.

Now, that happens right now at the retail level, anyway. If you are a manufacturing contractor who sells to an end user, you would compute a federal sales tax and you would also compute a provincial sales tax.

The last sentence in that section says:

If all governments were to have different tax bases, the system would be a national tax in name only. Effectively, it would be unworkable.

The Chairman: Is it your view that the only real way to make a national sales tax would be to have one rate across the country, including both the federal and provincial interests?

Mr. Friedman: It is my personal view, yes. But a view of the professional community is that you could run a tax with a common base but with different rates across Canada, and it is workable.

The Chairman: Except when you start crediting. Your crediting of the tax becomes exceptionally difficult.

Mr. Friedman: That leads into the import-export area, tracking provincial credits. You have to remember in which province you paid the tax so that they are the ones that actually refund the money.

The Chairman: Take a simple situation where the logs are cut and the lumber is made in British Columbia, and it is shipped to somewhere in Ontario. Somebody makes

[Translation]

on a déjà parlé, s'applique aussi aux consommateurs qui achètent des biens à l'extérieur du Canada.

Cela vaudrait-il la peine de mettre sur pied un mécanisme de perception double qui vous permettrait d'avoir une assiette fiscale commune, mais qui vous obligerait, à la fin de chaque mois, à rembourser les provinces, d'une part, et le gouvernement fédéral, d'autre part. On s'est même demandé s'il serait rentable d'avoir des taxes de vente multi-stades ou des taxes sur la valeur ajoutée distinctes pour chaque province, taxes que chaque province administrerait elle-même. Voilà matière à réflexion.

Maintenant, en ce qui concerne l'assiette fiscale, on a laissé entendre que l'on pourrait laisser le gouvernement fédéral administrer sa propre taxe, quitte à ce que chaque province décide par elle-même quels biens et services seraient taxés sur son propre territoire. À cet égard, j'attire votre attention sur la page 54 du Livre blanc, là où le ministère des Finances déclare ceci:

Sans assiette commune, une simplification ne serait guère possible. À bien des égards, le système risquerait de devenir plus complexe qu'il ne l'est déjà. L'assiette de la taxe fédérale sera uniforme dans tout le Canada. Si une province voulait imposer une taxe à une assiette différente, les entreprises actives dans cette province devraient effectuer deux calculs séparés, un par niveau de gouvernement.

Or, c'est justement ce qui se produit déjà dans la vente au détail. Si vous êtes un fabricant qui vendez à l'utilisateur final de votre bien, vous êtes obligé de calculer une taxe de vente fédérale et une taxe de vente provinciale.

La dernière phrase de cette section dit ceci:

Si tous les gouvernements devaient avoir des assiettes fiscales différentes, le système n'aurait de national que le nom. En fait, il serait inapplicable.

Le président: Êtes-vous d'avis que la seule façon d'appliquer une taxe de vente nationale, ce serait d'imposer à l'échelle du pays un même taux qui tiendrait compte des intérêts du gouvernement fédéral et des provinces?

M. Friedman: C'est en effet mon avis. Mais mes collègues sont aussi d'avis qu'il serait possible du point de vue pratique d'imposer une assiette fiscale commune avec des taux différents d'une province à l'autre.

Le président: Ce serait peut-être faisable, tant que l'on n'a pas à créditer la taxe, ce qui devient extrêmement difficile.

M. Friedman: Cela nous amène à la question de l'import-export et de la façon de tenir compte des crédits provinciaux. Il faut se rappeler exactement à quelle province l'on a versé la taxe pour que ce soit cette dernière qui rembourse.

Le président: Supposons un cas très simple: supposons que des billes de bois soient tronçonnées en planches en Colombie-Britannique mais expédiées quelque part en

[Texte]

something with it, who proceeds to ship it to Saskatchewan as a manufactured product. I just do not know what you do. You might have all the jurisdictions with different tax rates. How do you credit it?

Mr. Wood: You are quite right that it would be more complicated for many businesses. On the other hand, there may be many smaller businesses that only carry on business within a province—source within their province, sell within their province—and in that case there would be a single rate.

The Chairman: Yes, but very few.

Mr. Wood: In number, though, it may be very high, not in total dollars but in the number of businesses.

Mr. Layton: Percentage of totals.

Mr. Wood: Percentage of totals, yes, in number of businesses. Say there are two million licensees. A substantial proportion of that would do all their dealings within a province.

• 1110

Mr. Friedman: Maybe I am making a molehill out of a mountain or the other way around. That little businessman who goes to a convention in Vancouver to talk about roofing is going to have to pay something for hotels, or for perhaps some goods he buys there. He is going to have to know how to credit that to an account, or how to get the tax back. That is a concern. We talked—

The Chairman: If you have a different rate.

Mr. Friedman: Yes.

The Chairman: If you had a common rate, presumably you could have a formula for the division of the income.

Mr. Friedman: You are not only taking away the one opportunity for a province to create certain incentives by taking things away from bases. You are also directing to them what tax rate they should bring in.

Now, we talked about moving funds across, transfers. One or two European countries—I believe West Germany is one—do have one rate and somehow divvy up the money among states.

Mr. Weyman: You made the point that if we had one rate across the country, you could then use a formula to sort of divvy up the tax between the provinces. But surely if you have a different rate all you would have to do is apply different factors. . . If you can apportion on a uniform rate, is it not possible also, by varying the factor, to allow for rate differentials as well?

[Traduction]

Ontario. Quelqu'un les transforme alors en un objet quelconque qu'il expédie en Saskatchewan comme produit manufacturé. Que feriez-vous dans ce cas-là? Il se peut même que ces trois provinces imposent des taxes à des niveaux différents. Comment calculez-vous les crédits?

M. Wood: Vous avez raison de dire que cela serait beaucoup plus complexe pour bien des entreprises. Mais d'autre part, cela pourrait être plus simple pour les petites entreprises qui exercent leurs activités uniquement dans leur propre province, c'est-à-dire qui s'approvisionnent et revendent dans la même province: elles n'auraient qu'à calculer un seul taux.

Le président: D'accord, mais elles ne sont pas nombreuses, ces entreprises.

M. Wood: Au contraire, elles pourraient être très nombreuses, ces petites entreprises, même si leur chiffre d'affaires n'est pas très élevé.

M. Layton: En pourcentage du nombre total.

M. Wood: Oui, ces petites entreprises représenteraient un pourcentage élevé par rapport à la totalité des entreprises de la province. Supposons que vous ayez 2 millions d'entreprises accréditées. Il se peut qu'une grande proportion d'entre elles fassent toutes leurs transactions dans les limites de la province.

M. Friedman: Peut-être suis-je inutilement en train d'en faire toute une montagne. Mais il me semble que le petit entrepreneur qui se rend à Vancouver pour assister à un congrès sur les toitures est bien obligé de payer la taxe sur les hôtels ou sur certains articles qu'il achète là-bas. Il faudra bien qu'il sache comment se faire créditer cette taxe ou encore se la faire rembourser. On a aussi parlé de. . .

Le président: Si les taux sont différents.

M. Friedman: En effet.

Le président: Si l'assiette fiscale est commune, on peut supposer qu'il y aura une formule qui s'appliquera selon la façon dont le revenu se divise.

M. Friedman: En rétrécissant l'assiette fiscale, non seulement vous retirez aussi à la province la possibilité d'offrir des incitatifs fiscaux, mais vous lui imposez aussi plus ou moins le taux qu'elle devra fixer.

On a parlé du passage de biens taxés d'une juridiction à l'autre. Je pense qu'en Europe, un ou deux pays, dont l'Allemagne, ont fixé un taux commun et qu'ils se partagent l'argent des taxes entre eux.

M. Weyman: Vous avez dit que, si l'on appliquait un taux uniforme au pays, on pourrait alors avoir recours à une formule pour diviser la taxe entre les provinces. Par conséquent, si les taux varient d'une province à l'autre, il suffirait aussi de changer les facteurs de la formule. . . Si l'on divise en fonction d'un taux uniforme, n'est-il pas possible de faire la même division, en variant certains des

[Text]

The Chairman: I do not think so. Oh, I see what you mean.

Mr. Weyman: Let us say the rate in one province, just to take the extreme, is half of what it is in all the other provinces. It would only be a matter of arithmetic, when you are doing the apportionment, to take that factor into account. Once you have the allocation among the provinces. . . That seems to me the difficult part in terms of getting a fair base for doing the allocation. We are not talking about just consumption in that province by the households in that province. We are talking about people coming in and then going back to their province. You would have to allow a credit in their businesses for the tax that they paid while visiting the other province. It seems to me that is the area where there is difficulty.

Mr. Friedman: Then the concern will be which provinces are visited most often and what the patterns are across the country. There are more likely to be people from Saskatchewan visiting Ontario than vice versa. The money is spent in Ontario and you want to get a credit in Saskatchewan. But Saskatchewan says that Ontario got the tax in the first place. Why should Saskatchewan be paying the tax back? Now, what you are suggesting is that there should be some adjustment. But then you need to look at all the combinations of trips to see whether it is equal all across Canada. It is do-able—everything is do-able—but how reasonable is it?

Mr. Wood: The simplest way would be to look at household spending in that province and the total number of residents. There could be an allocation based solely on that. Forget all the earlier wash entries, just look at final consumption. The consumers do not care whether they spend it in B.C. or Ontario. Find out what the estimate of their consumption is. That would be the allocation.

Mr. Friedman: I cannot do the mental mathematics.

The Chairman: You have been involved in this for a while. How much leakage is there right now to provinces on their provincial sales tax? Obviously there is leakage at the border. There is leakage between the provinces.

[Translation]

facteurs, pour tenir compte des différences de taux selon les provinces?

Le président: Je ne le crois pas. Ah, je comprends ce que vous voulez savoir.

M. Weyman: Prenons un cas extrême et supposons que, dans une province, le taux d'imposition est la moitié de ce qu'il est dans toutes les autres provinces. C'est simplement une question de calcul: il suffirait de tenir compte de ce facteur lorsque l'on fait la répartition. Une fois la répartition faite entre les provinces. . . C'est cela qui me semble le plus difficile: d'avoir une assiette fiscale juste qui permette la répartition d'une province à l'autre. Nous ne parlons pas ici uniquement de ce que consomment toutes les familles de la province. Nous parlons ici aussi de ce que consomment des gens originaires d'autres provinces mais qui viennent séjourner dans la vôtre. Il faut permettre à leurs entreprises de pouvoir obtenir un crédit d'impôt pour les taxes qu'ils ont versées dans la province qu'ils visitaient. Voilà où le bât pourrait blesser.

M. Friedman: Il faudrait alors se demander quelles sont les provinces dans lesquelles on se rend le plus souvent et quels sont les modes de déplacement à l'échelle du pays. On peut s'attendre à ce qu'il y ait plus d'habitants de la Saskatchewan qui visitent l'Ontario que l'inverse. Ces visiteurs paient donc à l'Ontario de la taxe qu'ils voudraient bien se faire rembourser, une fois revenus en Saskatchewan. Mais la province de la Saskatchewan pourrait répliquer, quant à elle, que c'est la province de l'Ontario qui a reçu au départ l'argent de la taxe. Dans ce cas, pourquoi la Saskatchewan devrait-elle rembourser? Il faudrait qu'il y ait un certain rajustement, d'après vous. D'accord, mais il faudrait aussi tenir compte de toutes les combinaisons possibles de déplacement pour essayer de déterminer si les déplacements se valent dans toutes les provinces. C'est évidemment faisable; tout est faisable. Mais est-ce vraiment raisonnable de le faire?

M. Wood: La façon la plus simple, ce serait de déterminer ce que dépense chaque famille d'une province par rapport à son nombre total de résidents. La répartition se ferait alors en fonction de ces deux critères. Oubliez tous les facteurs précédents, et tenez compte uniquement de la consommation finale. Pour les consommateurs, peu importe qu'ils aient payé le produit qu'ils ont acheté en Colombie-Britannique ou en Ontario. Il s'agirait de faire l'évaluation de ce que consomme chaque famille, et c'est ce qui déterminerait l'allocation.

M. Friedman: Je suis incapable de faire le calcul mental.

Le président: Puisque vous vous penchez sur la question depuis déjà quelque temps, pouvez-vous nous dire combien la taxe de vente provinciale sur des biens achetés dans une autre province représente comme perte pour la province? On ne peut nier qu'il y ait fuite à la frontière et entre les provinces.

[Texte]

Mr. Wood: I am not aware of any Canadian studies, but in the U.S. it is suggested that they are losing 3% of the revenue on interstate sales.

Mr. Friedman: If you talk to Ontario retail sales tax branch people informally, they have a fond wish for Revenue Canada, Customs and Excise to collect provincial sales tax at the border, as goods come into the country. They suspect that there is a large amount of leakage every time you go on a holiday or on a business trip, as you truck your stereos back in your trunk—

Mr. Wood: Or between provinces. Clothing is exempt in Quebec and furniture is exempt in Quebec, so there seems to be a tendency—

The Chairman: Is it a fact that in some provinces the big payer of retail sales tax is the automobile industry?

Mr. Friedman: I cannot speak for that. The safeguard in automobiles is—

The Chairman: In the automobile industry it is the licensing. You have to licence the damned thing.

Mr. Friedman: I am sure that the provincial retail sales tax officials could probably give you very good figures as to what they think the leakage is.

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When we talked about the underground economy, nobody really knows. I am sure we have all bought things in the U.S. and have promptly declared them for customs purposes, but none of us have, on an honour system, remitted provincial sales tax on those goods when we should have done that.

The Chairman: I just think that is unconstitutional.

Mr. Weyman: Then of course there is the mail order business. Is the mail order business not also an area where there is considerable leakage?

Mr. Friedman: It is a big concern in the U.S., and there are volumes of court cases on individual states trying to force collection.

Mr. Wood: It is certainly a big issue in Canada as well. A number of mail order houses might choose to operate out of Alberta and then not be responsible for collecting tax from anywhere, or Ontario and sell into Quebec, and so on. You are quite right, there are a lot of mail order problems at the retail level that the provinces would solve if they participated in an NSD.

[Traduction]

M. Wood: À ce que je sache, aucune étude canadienne n'a été faite, mais aux États-Unis, on prétend que les pertes de revenu sur les ventes entre les États représentent 3 p. 100.

M. Friedman: Si vous parlez aux gens de la direction ontarienne de la taxe de vente au détail, vous constaterez certainement qu'ils souhaiteraient ardemment voir le ministère du Revenu, Douanes et Accise, percevoir la taxe de vente provinciale à la frontière, sur les biens qui entrent au pays. C'est parce qu'ils ont l'impression de perdre beaucoup de revenus fiscaux chaque fois qu'un Canadien va aux États-Unis en vacances ou en voyage d'affaires, étant donné qu'ils le soupçonnent de rentrer au pays avec quantité d'objets non déclarés enfouis dans le coffre de sa voiture. . .

M. Wood: C'est la même chose entre les provinces. La vente de vêtements et de meubles est détaxée au Québec, et c'est pourquoi on cherche plutôt. . .

Le président: Est-ce vrai que, dans certaines provinces, le secteur qui rapporte le plus en termes de taxe de vente au détail, c'est le secteur de l'automobile?

M. Friedman: Je n'en sais rien. Ce qui nous aide, en ce qui concerne l'automobile, c'est que. . .

Le président: C'est l'immatriculation qui vous sauve la vie. Il faut bien faire immatriculer ces satanées voitures.

M. Friedman: Je suis sûr que les représentants provinciaux de la taxe de vente au détail pourraient vous donner des chiffres exacts sur ce que représentent ces pertes.

Lorsque l'on parle de l'économie souterraine, personne ne connaît vraiment l'ampleur du problème. Je suis sûr que nous avons tous déjà acheté aux États-Unis des biens que nous avons promptement déclarés à la frontière, mais qu'aucun d'entre nous n'a remboursé selon les règles la taxe de vente provinciale, comme nous aurions dû le faire.

Le président: Je pense tout simplement que c'est contraire à la Constitution.

M. Weyman: N'oublions pas non plus tout le secteur des ventes par correspondance. Ce secteur ne représente-t-il pas lui aussi une perte considérable de revenus fiscaux?

M. Friedman: Je sais que c'est un grave problème aux États-Unis où divers États ont tenté à plusieurs reprises, par la voie des tribunaux, de percevoir la taxe de vente.

M. Wood: C'est aussi un grave problème au Canada. Certaines entreprises de vente par correspondance pourraient choisir de s'établir en Alberta, ce qui les exempterait d'avoir à percevoir de l'impôt d'ailleurs, ou encore de s'établir en Ontario pour vendre au Québec, par exemple. Vous avez raison de dire que, si les provinces adhéraient à un régime de taxe de vente nationale, elles pourraient ainsi résoudre une bonne

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The Chairman: Why I ask is the leverage that might be available to get provinces into one national rate, because it seems to me that no matter how you look at it, if you have different rates in different provinces, you have yourself a real problem. Secondly, of course, if we had one rate, we could impose that rate right across the country regardless of what Alberta thought.

Mr. Wood: On the other hand, the provinces—

Mr. Dorin: I am the only one who is not in violation of the provincial sales tax as he described it, because I am from Alberta, so I do not owe anything. I can go to the United States and buy things and have a clear conscience.

Mr. Friedman: I will correct you on that, because to the extent that you have, for want of a better word, a place of business in Ottawa, for example, and you bring in a bottle of alcohol into Ontario, even Diet Coke for that matter, you should be remitting provincial sales tax on that. It is where you consume the goods, not where you live.

Mr. Dorin: He is the innocent one, but what about the rest of us?

Mr. Friedman: It is a concern. One of the ways of getting provinces to opt into the system is that there is a little bit more security, but to the extent that you have one province that opts out or two provinces. . .

Now you mentioned, Mr. Chairman, that Alberta would have to go along. Alberta does not have to go along.

The Chairman: The national government could conceivably pass a national sales tax at 12%, and say that they will pay to every province half of the collections on a per capita basis.

Mr. Friedman: On a consumption basis.

The Chairman: On a per capita basis.

Mr. Friedman: Then how would the maritime provinces with provincial sales tax rates of 10% to 12% suffer compared to Saskatchewan, B.C., Manitoba, and Ontario with 6% and 7%?

The Chairman: They probably would not suffer, because if you paid it on a per capita basis, they probably have much more leakage down there than larger provinces like Ontario would have.

[Translation]

partie des problèmes que leur pose la vente au détail par correspondance.

Le président: Je pose la question parce que je voudrais savoir exactement comment nous pourrions inciter les provinces à adhérer à un régime national de taxe de vente: autrement dit, quel que soit l'angle sous lequel nous envisagions le problème, si les provinces choisissent d'imposer des taux différents, nous n'en sortirons jamais. En outre, si nous choissions d'imposer un taux uniformément, nous pourrions aussi l'imposer à l'Alberta, ne lui en déplaise.

M. Wood: Par ailleurs, les provinces. . .

M. Dorin: Je suis le seul à ne pas avoir enfreint la règle de la taxe de vente provinciale telle que l'a décrite M. Friedman, puisque je viens de l'Alberta et que je ne dois donc rien à personne. J'ai donc la conscience tranquille chaque fois que je vais acheter quoi que ce soit aux États-Unis.

M. Friedman: Permettez-moi de vous prendre en défaut: dans la mesure où vous avez une sorte de bureau d'affaires à Ottawa, chaque fois que vous importez en Ontario une bouteille d'alcool ou même une boîte de *Diet Coke*, par exemple, vous devriez rembourser la taxe de vente provinciale sur ces biens. L'important, ce n'est pas votre province de résidence, mais la province où vous consommez les biens.

M. Dorin: C'est lui qui est l'innocent, mais que fait-il des autres?

M. Friedman: Vous voyez que cela peut poser un problème. On pourrait inciter les provinces à adhérer au régime national en leur expliquant qu'il leur offre un peu plus de sécurité, et en espérant qu'une ou deux provinces ne choisissent pas de se désaffilier. . .

Vous avez dit, monsieur le président, que l'Alberta serait obligé d'emboîter le pas. L'Alberta n'y est aucunement obligée.

Le président: On pourrait imaginer que le gouvernement national pourrait décider d'imposer une taxe de vente nationale de 12 p. 100 et décréter qu'il versera à toutes les provinces la moitié de ce qu'il aura perçu en taxes, en fonction de leur nombre d'habitants.

M. Friedman: En fonction de la consommation.

Le président: Non, en fonction du nombre d'habitants.

M. Friedman: Dans ce cas, comment les provinces Maritimes pourraient-elles survivre avec des taux de taxe de vente provinciale de 10 à 12 p. 100, par rapport aux 6 et 7 p. 100 qu'imposeraient la Saskatchewan, la Colombie-Britannique, le Manitoba et l'Ontario?

Le président: Elles n'en souffriraient probablement pas, parce que, si le gouvernement fédéral remboursait les provinces en fonction de leur nombre d'habitants, cela compenserait largement les énormes pertes qu'elles subissent très certainement beaucoup plus que ne les subissent des provinces plus importantes comme l'Ontario.

[Texte]

Mr. Dorin: They also have lower average incomes, lower disposable incomes, and presumably lower consumption, and frankly will probably pick up some tax from those high-rolling Toronto lawyers who are paying it.

An hon. member: Lawyers from Toronto do not pay it.

Mr. Friedman: You have to be able to do the homework in proving to individual provinces that they would be as well off under this system as under any other system.

The Chairman: Has anybody done that homework, do you know? Well, Lorey might know.

Mr. Friedman: I am sure the Department of Finance has done something in this area.

Mr. Dorin: If I was the Minister of Finance, I would announce that three years from today, I am going to stop paying federal transfer payments to the provinces, and I am going to abandon federal sales tax. The numbers are reasonably the same, and let them scramble to pick up that available tax and sort it out.

Mr. Friedman: My answer to that is I would get into the business of renting out border guards between provinces, because this leakage is a concern.

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Mrs. Collins: I just want to come back to a question I asked earlier in the week. What is the cost of administration of the various options? It could be done jointly, federal and provincial, with one collection rather than two separate systems. Different options are being set forward. I gather you have not done an analysis of the comparative administrative costs.

Mr. Friedman: We have not. Obviously if you have one administration you can either eliminate Revenue Canada or you can eliminate the provincial collection mechanism. The fear is that because of the credit system involved, where somebody has to police the claims and a large number of taxpayers, you will perhaps eliminate some provincial administration, but replace it with a much larger federal administration. I would be very surprised if whoever is walking across or wandering across Canada trying to sell this to the provinces does not have some kind of information to prove that it makes more sense in terms of total manpower requirements.

It is hearsay, but I hear that the federal government will need 3,000 or 4,000 CAs to man this new system. I cannot find two or three CAs in Toronto. In addition to the question of manpower requirements, there is the problem of actually finding the people who are competent

[Traduction]

M. Dorin: Elles ont aussi des revenus moyens moindres, des revenus personnel disponibles moindres et conséquemment présument beaucoup moins; à vrai dire, je suppose qu'elles pourraient même récupérer une partie de la taxe que versent les riches avocats de Toronto.

Une voix: Les avocats de Toronto ne paient jamais de taxe.

M. Friedman: Il faut pouvoir bien fourbir ses armes et arriver à prouver aux provinces prises individuellement qu'elles s'en tireraient mieux en adhérant au régime qu'en adhérant à tout autre régime.

Le président: L'un de vous a-t-il fourbi ses armes? Lorey le sait peut-être.

M. Friedman: Je suis sûr que le ministère des Finances a fait des recherches dans ce domaine.

M. Dorin: À la place du ministre des Finances, j'annoncerai que, dans trois ans, jour pour jour, j'arrêterai tout paiement de transfert aux provinces et que j'abandonnerai aussi l'idée d'une taxe de vente fédérale. Les chiffres reviennent à peu près au même, et ce serait aux provinces à ramasser l'argent qui reste des taxes pour essayer de se le partager.

M. Friedman: Je vous répliquerais, quant à moi, que j'ouvrirais ma propre compagnie de gardes de sécurité, que je posterais aux frontières des provinces, justement là où se font les fuites.

Mme Collins: Je voudrais revenir à une question que j'ai posée plus tôt au cours de la semaine. Que coûtera l'administration de ces diverses options? Le régime pourrait être administré conjointement par le gouvernement fédéral et les provinces, et l'on pourrait n'avoir qu'une seule agence de perception plutôt que deux. N'avez-vous pas analysé ce que coûteraient, du point de vue administratif, les différentes options proposées?

M. Friedman: Non. Il est évident que, si l'on n'a qu'une seule agence qui administre, on peut soit éliminer le ministère du Revenu, soit éliminer l'agence de perception provinciale. On peut cependant craindre qu'à cause du système de crédit dont il est question, qui oblige quelqu'un à vérifier les demandes que présenteront, sans aucun doute, les nombreux contribuables, en voulant éliminer une boutique provinciale, il faudra peut-être la remplacer par une boutique fédérale beaucoup plus vaste. Cela me surprendrait d'apprendre que celui qui essaie de parcourir le Canada pour convaincre les provinces de la validité de sa proposition n'a pas déjà les renseignements voulus pour étayer sa position et la rendre beaucoup plus plausible en termes de besoins globaux de main-d'oeuvre.

Ce n'est que ouï-dire, mais j'ai su que le gouvernement fédéral aurait besoin de 3,000 à 4,000 comptables agréés pour administrer ce nouveau régime. Or, j'ai moi-même du mal à en trouver deux ou trois à Toronto. Outre le problème de besoin en main-d'oeuvre, il se pose une

[Text]

to police this system and to ensure that as soon as it gets off the ground, there are no games being played. My feeling is that you are not going to get economies of scale from it. I am open to debate on that.

Mrs. Collins: Do we have figures on what the administrative costs are likely to be if this comes about?

The Chairman: We have not.

Mr. Friedman: It is a very good question.

Mr. Weyman: In terms of the United Kingdom, am I right that there is some published data there in terms of, say, comparing the costs of running the value-added tax system there and the income tax system? I thought that the value-added tax system was significantly cheaper to run from government's point of view than the income tax system. Is that correct?

Mr. Friedman: The figures may be fairly old. Until a few years ago there was not great compliance requirements in the U.K. As an interesting sideline, as soon as they beefed up the policing, all the public accounting firms got a large number of clients and a large number of professionals dealing with VAT. I am wondering whether the statistics refer to pre-compliance days or after.

Mr. Hoffman: I do not know. I think those are earlier studies. I cannot remember. We have looked at this in the past, and I cannot remember the numbers. I think your inclination is correct.

Mr. Friedman: It seems to me that in talking several years ago to some people in the U.K. about the issue of compliances, there were so many holes in the rules that you could actually collect tax, hold onto it, not spend it and never remit it. Somehow there were difficulties in coming after that money.

In the last few years they have really beefed up their policing. The collections are only as good as the compliance and protection requirements under the act. It is probably an area where the committee would want to look closely at costs and at the economy of doing this kind of thing.

Mr. Wood: A lot of it still goes back to the preventive maintenance aspect and education to the extent that you can get taxpayers set up properly to begin with. Unless there is fraud or something involved, you will not have the problems there three years from now when you have the auditors go in. This goes back to the taxpayer education, re-emphasizing the importance there.

The other point I would like to make is that from the provincial treasurers point of view, the single rate concept

[Translation]

autre difficulté: celle de trouver des gens compétents pour vérifier le système et pour faire en sorte que, dès sa mise en oeuvre, on n'essaiera pas de le contourner. Ce n'est pas là que l'on trouvera des économies d'échelle, je le crains fort. Mais je suis prêt à en débattre.

Mme Collins: A-t-on une idée de ce qu'il en coûtera administrativement, si ce régime devait s'appliquer?

Le président: On ne sait pas.

M. Friedman: C'est une excellente question.

M. Weyman: Ai-je raison de penser qu'au Royaume-Uni, on a colligé des chiffres permettant de comparer ce qu'il en coûte de gérer le régime de la taxe sur la valeur ajoutée et ce que coûte le régime de l'impôt sur le revenu? Ai-je raison de croire que l'on a conclu, au Royaume-Uni, que le régime de la taxe sur la valeur ajoutée coûtait beaucoup moins cher à gérer du point de vue du gouvernement que le régime de l'impôt sur le revenu?

M. Friedman: Vos chiffres remontent peut-être déjà à quelque temps. Jusqu'à récemment, il n'y avait pas au Royaume-Uni de nombreux critères d'observation. Mais, fait intéressant à noter, dès que l'on eût mis l'accent sur la vérification, il semble que toutes les grandes maisons britanniques de comptabilité aient vu le nombre de leurs clients et de leurs agents s'intéressant à la TVA augmenter de façon considérable. Je me demande si, à l'époque où l'on a compilé les statistiques, il y avait observation ou non des critères.

M. Hoffman: Je n'en sais rien. Je pense que les études remontent à encore plus loin. Je sais qu'on s'est déjà posé la question, mais j'ai oublié les chiffres. Je pense que votre impression est justifiée.

M. Friedman: Pour avoir parlé, il y a de cela plusieurs années, à des Britanniques au sujet de l'observation des règles, il me semble avoir constaté qu'il y avait tellement de lacunes qu'il était possible à ce moment-là de percevoir de la taxe, de la garder dans ses poches sans la dépenser, et de ne jamais avoir à la rembourser. Il semblait difficile de récupérer cet argent.

Récemment, les Britanniques ont réussi à mettre de l'ordre dans leur système de vérification. Mais il n'est possible de percevoir la taxe que dans la mesure où la loi prévoit des mécanismes d'observation des règlements et de protection. Je suppose que le comité voudra regarder de près les chiffres des coûts et se demander si cette façon de faire est vraiment économique.

M. Wood: Mais on revient toujours à la question du maintien de la prévention et de l'éducation des contribuables, au départ. À moins qu'il n'y ait fraude ou quelque chose de ce genre, on ne devrait pas rencontrer les mêmes problèmes qu'on a connus au Royaume-Uni, lorsque les vérificateurs mettront le nez dans le système dans trois ans. Je répète que l'important, c'est la sensibilisation du contribuable.

J'aimerais aussi parler du point de vue des trésoriers des provinces: le taux unique ne les intéressera peut-être

[Texte]

may not be as interesting, given that the provinces to a large extent have given up personal income tax, except for Quebec and Ontario, I guess. They follow the federal government's rules. There is not a lot of room for them to move in individual policies. Many of them have used retail sales taxes as their fiscal instrument to provide certain incentives to what is needed. What is left for them to manoeuvre when there is a single rate and they just get money back from the federal government?

[Traduction]

pas autant, étant donné que les provinces, pour la plupart, ont déjà abandonné toute perception de l'impôt sur le revenu personnel, sauf pour le Québec et l'Ontario. Elles suivent les règles du gouvernement fédéral, et c'est pourquoi il n'y a pas beaucoup de place chez elles pour les politiques individuelles. Plusieurs d'entre elles se sont servies de la taxe de vente au détail comme d'un instrument fiscal pour pouvoir offrir certains incitatifs. Quelle marge de manoeuvre leur restent-elles si tout ce qu'on leur propose, c'est un taux unique et qu'il leur faut attendre de se faire rembourser par le gouvernement fédéral?

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Mr. Friedman: That is a very important point. To the members from out of province who stay in hotels in Ottawa, there is a not publicized refund procedure to get Ontario retail sales tax back on your accommodation. That is a provincial incentive. You did not know about that? Some of them are less publicized. It is a policy initiative to promote tourism not within the province but from outside the province. Quebec says that all accommodation is provincial sales tax exempt. So you are taking that away and it is a very valid point.

M. Friedman: C'est une observation très importante. Je ferais remarquer aux députés de l'extérieur qui résident dans des hôtels à Ottawa qu'il existe une procédure de remboursement qui vous permet de vous faire rembourser la taxe de vente au détail de l'Ontario que vous avez payée pour louer votre chambre d'hôtel. Il s'agit là d'un incitatif provincial très méconnu. Vous ne le saviez pas? Certains de ces incitatifs fiscaux sont presque passés sous silence. Il s'agit là d'une initiative politique visant à promouvoir le tourisme non pas de ses propres citoyens, mais de la part de ceux qui résident à l'extérieur de la province. Quant à ce qui se passe au Québec, tout logement est exempté de la taxe de vente provinciale. Vous avez donc tout à fait raison de soulever la question, si l'on enlève cette possibilité aux provinces.

Mr. Wood: I guess the other point is that to a large extent the provinces, like the federal government, take their taxes from business inputs. There would be a big shifting of the tax burden from business inputs to consumer goods.

M. Wood: En outre, il se trouve que les provinces, tout comme le gouvernement fédéral, perçoivent une bonne partie de leur revenu fiscal des intrants des entreprises. Le fardeau fiscal serait donc déplacé en grande partie des intrants des entreprises vers les biens de consommation.

The Chairman: Well, which provinces take the bulk from business inputs?

Le président: Quelles provinces exactement retirent la plus grande partie de leurs taxes des intrants des entreprises?

Mr. Wood: All of them tax business inputs.

M. Wood: Toutes, car elles taxent toutes les intrants.

The Chairman: Ontario does not really.

Le président: Pas vraiment l'Ontario.

Mr. Wood: Ontario and east, for example—

M. Wood: L'Ontario et les provinces de l'Est, par exemple. . .

The Chairman: It does not on manufacturing inputs though.

Le président: L'Ontario ne taxe pas ce qui entre dans la fabrication.

Mr. Wood: Oh yes, sure.

M. Wood: Si, certainement.

Mr. Friedman: British Columbia gives you no breaks.

M. Friedman: La Colombie-Britannique ne laisse rien échapper elle non plus.

Mr. Wood: Western provinces tax production equipment and the eastern provinces exempt some—Alberta exempts everything, of course—so there would be some shifting of the tax burden.

M. Wood: Les provinces de l'Ouest taxent l'équipement de production, alors que les provinces de l'Est en exemptent certains. L'Alberta détaxe absolument tout, bien sûr. Par conséquent, il y aurait déplacement dans une certaine mesure du fardeau fiscal.

Mr. Hoffman: Mr. Chairman, this comes back to the problem we discussed the very first night. Why not have a retail sales tax with exemption certificates? As much as that appeals in theory, the empirical evidence suggests

M. Hoffman: Monsieur le président, nous revenons au problème que nous avons discuté la toute première journée. Pourquoi ne pas proposer une taxe de vente au détail avec des certificats d'exemption? Pour autant que

[Text]

that retail sales taxes are very poor mechanisms for relieving inputs of tax. There has been a suggestion, although I cannot substantiate it here, that as much as one-third of all provincial taxes are collected from business inputs.

Mr. Wood: Yes, but the other side of that, Lorey, is who has tried to do it? Has it been a revenue-raiser or have they been looking to ways to relieve business inputs?

Mr. Hoffman: Remember, under a new joint system it is not the current rate that you tack onto the federal rate.; you have to get that revenue from somewhere else if you want to stay revenue neutral.

The Chairman: Well, if you tax business inputs but the consumption of that business's product is all domestic, it does not matter. It is only when the business input results in a burden on your exports. Is that not right?

Mr. Hoffman: No.

The Chairman: Why? What is that rule?

Mr. Hoffman: That is the nature of the tax. You only tax final consumption.

Mr. Friedman: If you did not relieve raw materials and work in process or machinery, and you tax selling price and you tax inputs, you have a double taxation.

The Chairman: Yes, well as long as that is only with respect to your domestic market. . . You are taxing your domestic citizens anyway and this is just another way of doing it.

Mr. Hoffman: That is cascading.

The Chairman: Yes, I know, but the fact is you are talking about the domestic market. What is the damage? Is that damage not only when it results in export?

Mr. Friedman: No, we go back. . . It is like I see Loblaw's again, the company that says that you are going to tax their inputs, they are going to integrate vertically as much as possible because to the extent that any processing occurs within their own plant that is not going to get taxed as the goods move in. So you are again suggesting that if you do not give relief to inputs then you are giving advantages to the more vertically integrated corporations versus the ones that just do a little bit of holding onto inventory. So it is not equal. It is not a fair way of doing it.

The Chairman: I appreciate you can sit back and say it is not fair, but I have not yet seen a taxing statute that was fair. Taxes are implicitly unfair.

[Translation]

cette solution nous séduise en théorie, l'expérience, jusqu'ici, montre que la taxe de vente au détail n'est pas le moyen idéal pour rembourser la taxe prélevée sur les intrants. On a laissé entendre, sans pour autant que je puisse étayer cette hypothèse, que jusqu'à un tiers de toutes les taxes provinciales étaient perçues sous forme de taxes sur les intrants des entreprises.

M. Wood: D'accord, mais il faut également se demander quel était l'objectif visé. S'agit-il d'augmenter les revenus pour le gouvernement ou de rembourser la taxe prélevée sur les intrants des entreprises?

M. Hoffman: Rappelez-vous qu'avez un nouveau régime conjoint, ce n'est pas le taux actuel que l'on rajoute au taux fédéral; il faut aller chercher ce revenu ailleurs, si l'on veut préserver la neutralité des recettes.

Le président: Mais si vous taxez les intrants des entreprises mais que ce produit d'entreprise est consommé au Canada, cela ne fait pas de différence. N'est-il pas vrai que cela ne fait une différence que lorsque l'intrant d'entreprise se traduit par un fardeau pour vos exportations?

M. Hoffman: Non.

Le président: Pourquoi? Qu'est-ce que c'est que cette règle?

M. Hoffman: C'est à cause de la nature de la taxe qui ne taxe que le consommateur final.

M. Friedman: Si nous n'allégez pas la taxe sur les matériaux bruts et sur les travaux de transformation ou la machinerie et que vous taxiez le prix de vente et les intrants, cela finit par faire une double taxation.

Le président: Oui, dans la mesure où cela ne s'applique que à l'intérieur de vos frontières. Vous taxez déjà les citoyens du pays, et cela ne fait qu'une taxe de plus.

M. Hoffman: C'est une application en cascade de la taxe.

Le président: Je sais, mais on ne parle ici que du marché national. Pourquoi parlez-vous d'un fardeau de plus? N'est-ce pas un fardeau de plus uniquement lorsqu'il y a exportation?

M. Friedman: Non. . . Prenez encore une fois le cas de Loblaw's: Cette compagnie prétend que puisque l'on veut taxer ses intrants, elle va s'intégrer verticalement le plus possible étant donné que toute transformation effectuée dans son sein ne fait pas l'objet d'une taxe perçue sur les biens qui y entrent. Vous laissez encore une fois entendre qu'en n'allégeant pas le fardeau fiscal sur les intrants, vous avantegez les sociétés verticalement intégrées par rapport à celles qui ne font que maintenir leur inventaire. Ce n'est pas juste.

Le président: C'est bien beau de prétendre que ce n'est pas juste, mais je ne connais pas de régime fiscal qui, à ce jour, soit juste. Taxer, c'est implicitement injuste.

[Texte]

Mr. Weyman: It is interesting, because value-added tax was introduced originally to eliminate the extreme cascading of taxes that was occurring in the European countries. And here we are introducing or thinking of introducing a value-added or multi-stage sales tax, yet acknowledging that the cascading could well be an acceptable part of it.

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Mr. Wood: I think the point on the provincial mix between business inputs and consumers is that in setting a break-even rate, where there is a shift in tax from the business imports to consumer goods, the break-even rate could actually be higher in some provinces than the current sales tax rate. That is the point. I am just saying that it is more complicated in the rate-setting procedures than it would first appear.

Mr. Friedman: Especially for basic groceries and other things that are tax-free, because then the base shrinks.

Mrs. Collins: I want to come back to a problem I mentioned earlier this week. Having spent some time with the restaurant people last night, as I know the chairman did, I could see some real problems in equities in the whole issue of how to tax restaurants.

The Chairman: I stirred them all up, Mary.

Mrs. Collins: I know. If food is to be zero-rated or exempt and if this is a component of their input, do you exempt that and only tax on the value added to that food within the restaurant?

Secondly, what do you do as...? We all know that within the grocery stores an increasing part of their business is the sale of prepared deli foods, which are the same as those you would get in a restaurant. This is a real concern to the restaurant industry. A third example is that of the 7-Elevens, which are getting into a lot of selling of hamburgers. What is the difference between a hamburger at 7-Eleven and a hamburger at McDonald's? I just do not know how all that is—

Mr. Friedman: We discussed this whole area. Right now in Ontario, for example, if you go into the supermarket down the street and buy a barbecued chicken that was cooked in the supermarket, it is subject to provincial sales tax.

Mrs. Collins: The whole amount. They do not exempt the cost of the basic chicken.

Mr. Friedman: No, they do not. Right now the restaurants are used to withholding provincial sales tax on certain items. It is a concern.

[Traduction]

M. Weyman: Ce qui est intéressant, c'est que la taxe sur la valeur ajoutée a été introduite à l'origine pour éliminer l'application en cascade des taxes qui étaient poussées à l'extrême en Europe. Or, ici nous pensons introduire une taxe sur la valeur ajoutée ou une taxe de vente multi-stage, tout en reconnaissant que l'application en cascade des taxes pourrait en faire partie intégrante que nous irions même jusqu'à accepter.

M. Wood: Lorsque l'on parle de l'heureux milieu que les provinces doivent atteindre entre les taxes sur les intrants des entreprises et les taxes à la consommation, il est important de remarquer que lorsqu'il y a un déplacement du fardeau fiscal des intrants des entreprises aux biens de consommation, le taux de rentabilité pourrait être plus élevé dans certaines provinces que ne l'est le taux de taxe de vente actuel. C'est ça qui est important. Il est donc plus compliqué de fixer le taux que cela peut sembler au départ.

M. Friedman: Surtout lorsque l'on parle des produits d'épicerie de base et d'autres produits qui sont détaxés, puisque alors l'assiette fiscale rétrécit.

Mme Collins: Je voudrais revenir à ce que j'ai dit plus tôt cette semaine. Comme le président et moi-même avons passé quelque temps à discuter avec les représentants des restaurateurs hier soir, j'ai pu constater que la façon de taxer les restaurants pourrait soulever de graves problèmes d'équité.

Le président: Je les ai tous secoués, madame Collins.

Mme Collins: Je sais. S'il doit y avoir un taux d'imposition de zéro pour les aliments, c'est-à-dire si les aliments doivent être exonérés, étant donné que les aliments constituent une partie de leur intrant, allez-vous exonérer uniquement cette partie et allez-vous ne taxer que la valeur ajoutée à cet aliment dans le restaurant?

Deuxièmement, que faites-vous...? Nous savons que dans les épiceries, on vend de plus en plus d'aliments et de charcuteries préparées, qui sont à peu près les mêmes que ceux que vous pourriez manger au restaurant. Cela inquiète énormément les restaurateurs. Troisième exemple, celui des chaînes de magasins 7-Eleven, qui se lancent dans la vente des hamburgers. Quelle est la différence entre le hamburger de 7-Eleven et celui de MacDonald? Je ne sais trop comment tout cela... .

M. Friedman: Nous en avons discuté. Actuellement, en Ontario, si vous achetez au supermarché du coin un poulet barbecue cuit en supermarché, il vous faut payer la taxe de vente provinciale.

Mme Collins: Sur tout le produit. On n'exonère pas le produit du coût de base du poulet.

M. Friedman: Non, en effet. Or, les restaurants ont actuellement l'habitude de ne pas faire payer la taxe de vente provinciale sur certains produits. C'est d'ailleurs un problème.

[Text]

Mrs. Collins: Not in B.C. They exempt restaurant meals from the sales tax in B.C.

Mr. Friedman: As I understand it, only for the first \$6.

Mrs. Collins: No, it is taken off entirely.

Mr. Friedman: Oh, is it? Okay, I stand corrected.

As we said about this two nights ago, it is even worse. We were addressing some of the concerns of Mr. Cassidy. If you go into a milk store, buy a frozen pizza and pay for it and if you just happen to throw it in a microwave oven on the counter, it would be tax-free. But if you had the store clerk throw it into the microwave oven, it would be subject to tax.

It is a valid concern, but it is a fact of life. I guess whoever wrote the white paper or whoever thought this scheme up considered restaurant meals to be luxuries and home-consumed foods not to be luxuries. I have a concern where you choose to count caviar—and you will hear people saying this—as a basic grocery but a granola bar as something that should be taxable.

We keep coming back to having guidelines, and that argument goes for making everything taxable and for giving selected refundable income tax credit to the people who need it the most.

I sound like a politician now, but you cannot argue out of both sides of your mouth. Exempt groceries but the poor restaurant people are going to be hurt. You have to go one way or the other; there is no half-way of doing it. Then you get into the debate of how much value certain... You can go to French restaurants now in Toronto where they take out a frozen meal, throw it in the oven and serve it to you. You can go to another French restaurant where somebody prepares the meals and works on it. If you exempt the inputs... the inputs are taxable and everything else is tax free. Where is the equality there?

If you start making those distinctions, then you get inequality. This is why I sound like a cruel person, but I would tax all food and let the policy-makers ensure that enough of a credit is handed out to the right people as frequently as necessary.

Mr. Dorin: The problem with what you just said is—

The Chairman: It would be unsaleable.

[Translation]

Mme Collins: Pas en Colombie-Britannique où l'on exonère les repas de restaurant de la taxe de vente provinciale.

M. Friedman: À ce que je sache, à concurrence de 6.00\$.

Mme Collins: Non, cela compte pour le prix total du repas.

M. Friedman: Vraiment? Je ne le croyais pas.

Comme nous l'avons dit avant-hier soir, cela peut être encore pire. En répondant à M. Cassidy, nous avons expliqué que si vous alliez acheter chez un dépanneur une pizza surgelée que vous décidiez de faire réchauffer vous-même au four micro-ondes qui se trouve sur le comptoir, votre pizza serait détaxée. Mais que si vous demandiez au commis du dépanneur de la faire réchauffer pour vous, votre pizza serait alors taxée.

Vous avez raison de vous poser la question, mais le fait est que c'est injuste. Quiconque a rédigé le Livre blanc et a élaboré ce système devait juger que les repas au restaurant étaient du luxe alors que tous les repas consommés chez soi ne l'étaient pas. Ce qui m'inquiète, c'est lorsque l'on prétend que le caviar, c'est un aliment de base—comme voudrait nous le faire croire d'aucuns—alors que les tablettes granola devraient être taxées.

On revient à l'argument prôné par certains qui est le suivant: Établissons des lignes directrices, taxons absolument tout, puis remboursons par le moyen de crédit d'impôt sur le revenu ceux qui en ont le plus besoin.

J'ai maintenant l'air d'un politicien, mais on ne peut constamment ménager la chèvre et le chou. Si vous exonérez les aliments d'épicerie, ce sont les pauvres restaurateurs qui seront lésés. Il faut aller jusqu'au bout dans un sens ou dans l'autre, sans s'arrêter à mi-chemin. On peut alors évidemment se demander quelle valeur attribuer à... Dans certains restaurants français de Toronto, on vous sert actuellement des repas surgelés que l'on vient de réchauffer. Dans d'autres, c'est quelqu'un qui prépare le repas à la cuisine du début à la fin. Si vous exonérez les intrants... Par contre, si vous taxez les intrants, tout le reste est détaxé. Où est l'équité dans tout cela?

Dès que l'on commence à distinguer les cas particuliers des autres, c'est là que l'on prête le flanc à l'inéquité. Au risque d'avoir l'air cruel, je taxerais moi-même tous les aliments et je ferais en sorte que les politiciens donnent suffisamment de crédits d'impôts à ceux qui en ont besoin, aussi souvent que nécessaire.

M. Dorin: La difficulté de ce que vous venez de dire...

Le président: On n'arriverait jamais à convaincre qui que ce soit.

[Texte]

[Traduction]

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Mr. Dorin: Well, if Mary is now convinced she can go to caucus next week and tell them that, and then there will be two of us.

The Chairman: Mary can do that. I tried to quietly do that and I got booed down, as you recall.

Mr. Friedman: Well, you are going to New Zealand, and New Zealand has a labour government that has instituted a GST on basic groceries, on charities, on babysitters, on anybody. If they do it, then they have recognized the fact that there is something intrinsically important about taxing everybody, and just directing tax relief at the people who require it.

Mr. Dorin: There is absolutely no dispute. I do not think anybody who really understands the system of sales tax could make a valid argument for anything other than a single tax—one rate, everything included. However, the problem is that there is only a minority... and I will not claim that I am a sales tax expert, but I am just saying there is a very small minority of us who have enough appreciation of the issues to come to that conclusion.

Mr. Friedman: I agree with you. I mean, living in Toronto and shopping in a supermarket where they look at you to see how you are dressed before they ring up the sales, it does not matter to me as much as it does to lower-income people how much I pay for my groceries. If you make groceries tax-free I will benefit three or four times as much as the people who really need it. So go ahead, make them tax-free. I will be happy.

Mr. Hoffman: It buys lots of caviar.

Mr. Minaker: I guess we are reviewing areas of more information, are we?

The Chairman: Yes.

Mr. Minaker: I would like to bring up the subject of new houses and used houses again. In the case of a new house where they pay the tax and you get a mortgage on it, and you have to get the mortgage to pay the tax, how are you going to tax the mortgage?

Mr. Wood: The mortgage would not be in it at all? It is not a factor?

Mr. Minaker: No, I mean, will you be taxing the service of that mortgage? In other words—

Mr. Wood: If it came through a financial institution it would. But if it was private, likely not.

Mr. Minaker: Say it is from Montreal Trust, so the one individual who buys a new house has to pay an extra \$100

M. Dorin: Si Mary est convaincue elle peut aller au caucus la semaine prochaine pour en parler. Comme cela nous serons deux.

Le président: Mary pourrait le faire. Si vous vous souvenez, j'ai essayé de procéder de cette façon sans faire trop de tapage, mais on m'a hué.

M. Friedman: Vous allez aller en Nouvelle-Zélande. Ce pays a un gouvernement travailliste qui a instauré la TBS sur les produits d'épicerie de base, les dons de charité, les gardiennes, etc. Ce gouvernement travailliste a dû penser qu'il était intrinsèquement important d'imposer tout le monde pour offrir ensuite une exemption aux seules personnes qui en avaient véritablement besoin.

M. Dorin: Sans aucun doute. Je crois que toutes les personnes qui comprennent vraiment comment fonctionne la taxe de vente ne pourraient recommander rien d'autre qu'une taxe unique s'appliquant à tout. Le problème est qu'il y a une minorité... Personnellement je ne prétends pas être spécialiste en la matière, mais je pense qu'il n'y a que très peu de personnes qui comprennent suffisamment la question pour en arriver à une telle conclusion.

M. Friedman: Je suis d'accord avec vous. J'habite à Toronto et je m'approvisionne dans un supermarché où les caissières toisent les clients pour voir comment ils sont habillés avant de leur dire combien ils doivent. La situation n'est évidemment pas aussi grave pour moi que pour quelqu'un à faible revenu. Si les épicerie ne sont pas assujetties à l'impôt, ce sera beaucoup plus mauvais pour les personnes à faible revenu que pour moi. Par conséquent, je n'ai rien à perdre mais tout à gagner à un système où les aliments ne sont pas taxés.

M. Hoffman: Vous pourrez acheter beaucoup de caviar.

M. Minaker: Nous nous penchons sur les questions pour lesquelles nous avons besoin de plus de renseignements, n'est-ce pas?

Le président: Oui.

M. Minaker: J'aimerais aborder la question de l'habitation, les maisons nouvelles et anciennes. Dans le cas d'une nouvelle maison, comment l'hypothèque sera-t-elle taxée? Car cette taxe est calculée sur l'hypothèque.

M. Wood: Vous voulez dire que l'hypothèque n'est pas un facteur dont il faut tenir compte?

M. Minaker: Non, je veux simplement savoir si la taxe s'appliquera au service de l'hypothèque. En d'autres termes...

M. Wood: Si l'hypothèque était consentie par une institution financière, la taxe s'appliquerait, mais ce ne serait sans doute pas le cas s'il s'agissait d'une transaction privée.

M. Minaker: Supposons qu'il s'agisse d'une hypothèque obtenue auprès du Montreal Trust dans le cas d'une

[Text]

per month for 20 years to accommodate the \$8,000 of tax on the house.

Mr. Wood: Okay. Is it \$8,000? How did you...? I was thinking about that calculation...

Mr. Hoffman: How did you come up with that figure? I think you missed a decimal point.

Mr. Minaker: Because there is 3% on the material, okay?

Mr. Hoffman: Okay. Right.

Mr. Minaker: The house cost, we will say, \$60,000—

Mrs. Collins: Where can you buy a house for that?

Mr. Minaker: No, no, the house cost \$60,000 and the land is worth \$40,000. So you have a \$100,000 house.

Mr. Wood: No, I think the estimates were 3% of the total price.

Mr. Minaker: Oh, I think they are higher than that, because your material in the house itself is only a third of the cost of the cost; the rest is labour.

The Chairman: It is well over half.

Mr. Layton: Depending on how much you have—

Mr. Minaker: You are looking at \$20,000 worth of material, we will say, at 8%, which is \$1,600. So if you look at the \$1,600 on the \$100,000 sale, at the present time—

Mr. Wood: There are indirect taxes there, too, that the contractor and his tools and the trucks and—

Mr. Minaker: No, it would not be that high.

The Chairman: Well, we will make it \$2,500.

Mr. Minaker: Well, anyway, say there is \$2,000 of tax on that house right now.

Mr. Layton: For the discussion only.

Mr. Minaker: For the discussion only, okay? Now we apply a 15% tax if the provinces get into the game, on the \$100,000, so there is \$15,000 of tax in there.

Mrs. Collins: What? That means it is \$115,000.

Mr. Minaker: Yes, well it is a \$100,000 house that you could buy right now. With 15% on it, it would be \$115,000. So then you have to mortgage it on top... so now what happens is that it is at least \$125 a month more to cover the financing, and that is in the mortgage. Now, how are we going to tax the mortgage?

Mr. Wood: The mortgage itself, if it is from a financial institution... the financial institution would calculate tax on the spread.

[Translation]

nouvelle maison. Il faudrait payer 100\$ supplémentaire par mois pendant 20 ans pour rembourser les 8,000\$ de taxes sur la maison.

M. Wood: D'accord. S'agit-il de 8,000\$? Comment avez-vous...? Je réfléchissais au calcul...

M. Hoffman: Comment en êtes-vous arrivé à ce chiffre? Je crois que vous avez fait une erreur de décimales.

M. Minaker: Il y a bien 3 p. 100 sur les matériaux n'est-ce pas?

M. Hoffman: Oui.

M. Minaker: Prenons le cas d'une maison de 60,000\$.

Mme Collins: Et où donc pouvez-vous acheter une maison pour ce prix?

M. Minaker: La maison vaut 60,000\$ le terrain 40,000\$ ce qui nous donne une maison de 100,000\$.

M. Wood: Je crois que l'on avait prévu 3 p. 100 du prix total.

M. Minaker: Je crois que ce serait plus élevé que cela étant donné que les matériaux eux-mêmes ne représentent qu'un tiers du coût total, les deux autres tiers représentant la main-d'oeuvre.

Le président: Il s'agit de plus de la moitié.

M. Layton: Tout cela dépend de...

M. Minaker: S'il s'agit de 20,000\$ en matériaux à 8 p. 100, cela signifie 1,600\$. Il s'agirait donc de 1,600\$ sur les 100,000\$ à l'heure actuelle...

M. Wood: Il y a également des taxes indirectes, l'entrepreneur doit tenir compte de ses outils et de ses camions, etc.

M. Minaker: Non, ce chiffre ne serait pas aussi élevé.

Le président: Disons par exemple 2,500\$.

M. Minaker: Supposons donc qu'il y ait 2,000\$ de taxes sur cette maison à l'heure actuelle.

M. Layton: Nous ne retenons ce chiffre que pour la discussion.

M. Minaker: Certainement. Si l'on impose une taxe de 15 p. 100 provinciale, cela signifie sur 100,000\$, 15,000\$ de taxes.

Mme Collins: Comment! Cela porte donc le prix total à 115,000\$.

M. Minaker: Il s'agit bien d'une maison de 100,000\$ que vous pourriez acheter à l'heure actuelle. Quinze pour cent de taxes signifie 15,000\$. Il faut ajouter l'hypothèque, ce qui signifie au moins 125\$ par mois supplémentaires pour le financement. Comment va-t-on taxer l'hypothèque?

M. Wood: Si l'hypothèque est obtenue auprès d'une institution financière, celle-ci calculerait la taxe sur l'écart.

[Texte]

Mr. Friedman: So if they have a 2% spread there may be 10% or 15% of that 2%.

Mr. Hoffman: Thirty basis points.

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Mr. Minaker: So it is 30 basis points. Then if you buy a used house you do not have this, but you will just pay on the mortgage. You really have double taxation in this situation.

Mr. Hoffman: Why is it double taxation?

Mr. Minaker: You are taxing the mortgage that paid for the tax.

Mrs. Collins: Yes, you had to borrow the money to pay the tax, and then you have to pay a tax on that borrowed money.

Mr. Wood: But when you borrow money you are getting a service.

Mr. Hoffman: No, you are not. This is not a tax on borrowed money, it is a tax on the service provided by the bank.

Mr. Dorin: If you had the cash in the bank, you would not have to borrow.

Mr. Hoffman: It is not a tax on loans.

Mr. Dorin: The tax is not on the 11% mortgage.

Mr. Hoffman: Absolutely, it is on the spread.

Mr. Dorin: It is on maybe 2% of the 11%, and it is three-tenths of that.

Mr. Hoffman: Precisely.

The Chairman: He has pointed out a real problem. He says you put this tax on new houses, but if the house is an old house you do not put the tax on it.

Mr. Minaker: Not only that, you do not put it on the land.

Mr. Dorin: That is the question, what do you do on the resale market of houses?

The Chairman: You really have a distortion, do you not?

Mr. Wood: Resale houses are exempt.

Mrs. Collins: For the one time.

Mr. Friedman: By the way, 15% is being truly optimistic that you could have a combined 15% rate in most provinces.

Mr. Minaker: That is what I am just saying... the impact difference of the two situations, particularly if it is a young couple who wants to buy a new house. You are going to elevate the price.

[Traduction]

M. Friedman: Ainsi donc si l'écart est de 2 p. 100, il pourrait s'agir de 10 ou 15 p. 100 de ces 2 p. 100.

M. Hoffman: Il s'agit donc de trente centièmes de point.

M. Minaker: Trente centièmes de point. S'il achète une maison ancienne, on doit payer la taxe uniquement sur l'hypothèque. En fait il s'agit d'une double taxation.

M. Hoffman: Pourquoi?

M. Minaker: Parce qu'il s'agit d'une taxe sur l'hypothèque qui a été calculée après imposition de la taxe.

Mme Collins: Oui, en effet, car il faut emprunter de l'argent pour payer la taxe puis payer la taxe sur cet argent emprunté.

M. Wood: Évidemment, mais cet emprunt représente un service.

M. Hoffman: En fait il ne s'agit pas d'une taxe sur l'emprunt mais bien sur le service fourni par la banque.

M. Dorin: Si on a l'argent en banque évidemment il ne faut pas emprunter.

M. Hoffman: Ce n'est pas une taxe sur un emprunt.

M. Dorin: La taxe n'est pas calculée sur l'hypothèque à 11 p. 100.

M. Hoffman: Mais bien sur l'écart.

M. Dorin: Ainsi donc il pourrait s'agir de 3/10 de 2 p. 100 de 11 p. 100.

M. Hoffman: Précisément.

Le président: Le député a mis le doigt sur un problème réel: il s'agirait donc d'une taxe sur les nouvelles constructions mais non sur les anciennes.

M. Minaker: Non seulement cela, mais il n'y a pas de taxe sur les terrains.

M. Dorin: La question est alors de savoir ce qui se passe lors de la revente.

Le président: Cela provoque évidemment des distorsions.

M. Wood: Et il n'y a pas de taxe à la revente.

Mme Collins: Pour cette fois.

M. Friedman: Soit dit en passant, 15 p. 100 est un chiffre global fort optimiste dans le cas de la plupart des provinces.

M. Minaker: C'est ce que je dis précisément et il y aura une grande différence entre les deux situations, particulièrement dans le cas d'un jeune couple qui veut acheter une nouvelle construction. Les prix seront donc plus élevés.

[Text]

The other thing is, you are going to elevate the used-house price immediately. It will be more attractive—you can buy it for 10% more, instead of 15% more, if it is a new house.

Mr. Wood: But this goes back to the argument, which drives which. If two-thirds of the houses are used houses, which leads the market?

Mr. Hoffman: Yes, new housing is a small share of total capital stock.

Mr. Minaker: It will still elevate the cost of housing, which would be a capital gain for those individuals who have the houses that are non-taxable.

Mrs. Collins: If the total cost is \$150,000 and you resell that house, you are going to try to recoup that, I assume.

The Chairman: You are going to try, but you are not going to, in all likelihood, if there are a lot of old used houses on the market. So while the used houses will probably go up in value, if there are lots of used houses and you want to sell in a hurry you may wind up having one hell of a time.

Mr. Minaker: Like the MURB. . .

Mrs. Collins: It could be a real depressant to new housing development, which seems to be against what we had planned.

Mr. Dorin: Yes, I think it is like you said when we started off an hour or so ago. In terms of what would happen to prices, you said there was a lot of conversation that they could go up, they could go down, or they could stay the same. It is pretty hard to ever figure out, because you have the cost of the current 12% tax on building materials that would come out, and—

Mr. Friedman: It is 8%. . . 12% on some stuff.

The Chairman: Except the paint, it is 12%.

Mr. Dorin: It is pretty hard to ever figure out exactly what the impact could be.

Mr. Wood: But the housing is unusual in that you have all this existing used housing stock.

Mr. Friedman: As we said when we started off, new construction was outside the system in the U.K. and now they are considering pulling it into the system. So again it behoves you to perhaps find out how the U.K. thinks they can work with the impact that might have on house prices.

Mrs. Collins: What was it again on used cars?

[Translation]

Le résultat sera évidemment que les maisons anciennes verront leur prix monter immédiatement. Car ce sera plus intéressant d'acheter une maison qui n'est pas neuve: il s'agira de 10 p. 100 de plus dans le cas des maisons anciennes par rapport à 15 p. 100 dans le cas des nouvelles constructions.

M. Wood: On en revient à la question de savoir ce qui va orienter le marché, étant donné que les deux-tiers des maisons ne sont pas des nouvelles constructions.

M. Hoffman: Oui, les nouvelles constructions ne représentent qu'une petite partie de l'inventaire d'immobilisations total.

M. Minaker: Tout cela ne fera que gonfler davantage le coût de l'habitation et cela représenterait un gain de capital pour les personnes qui possèdent les maisons qui ne sont pas taxables.

Mme Collins: Si le coût total d'une maison est de 150,000\$ il est certain que son propriétaire va essayer de récupérer tout cela lors de la revente.

Le président: C'est peut-être ce qu'il voudrait faire, mais ce ne sera peut-être pas fort possible s'il y a beaucoup de maisons anciennes sur le marché. Ainsi donc si les maisons anciennes vont acquérir une certaine plus value le vendeur pressé aura beaucoup de mal à vendre dans un marché saturé.

M. Minaker: Comme dans le cas des IRLM. . .

Mme Collins: Cela pourrait mettre un frein aux nouvelles constructions, ce qui va à l'encontre de ce que nous avions prévu.

M. Dorin: Je crois que l'on en revient à la situation que vous aviez décrite lorsque nous avons commencé la séance il y a une heure environ. En effet, vous aviez dit que tout laisse à penser que les prix pourraient tout aussi bien monter que descendre ou rester stationnaires. Il est difficile de pouvoir en effet se prononcer sur cette question étant donné que la taxe sur la matériaux de construction de 12 p. 100 à l'heure actuelle pourrait très bien être supprimée et. . .

M. Friedman: Il s'agit de 8 p. 100, 12 dans certains cas.

Le président: Il s'agit de 12 p. 100 sauf pour la peinture.

M. Dorin: Et il serait par conséquent très difficile de prévoir quels seraient les conséquences.

M. Wood: Dans le cas de l'habitation, la situation est inhabituelle étant donné qu'il existe tout cet inventaire de maisons anciennes.

M. Friedman: Comme on l'a dit quand on a commencé la séance, la nouvelle construction ne relève pas du système au Royaume-Uni mais les politiciens étudient la possibilité que cela soit inclus. Peut-être conviendrait-il par conséquent de voir comment on évalue dans ce pays l'impact que ça pourrait avoir sur les prix de l'habitation.

Mme Collins: Quelle était la situation dans le cas des voitures usagées?

[Texte]

Mr. Friedman: On used cars you would pay it like any other good.

Mr. Wood: I do not believe there is any discussion in the paper about other countries that happen to have some kind of a credit scheme, so when the dealer takes in a used car he gets a theoretical credit for the tax content of it. Then when he turns around and sells it, he charges tax on the full amount.

Mr. Layton: What about the individual?

Mr. Minaker: Right now in the province of Manitoba you just pay the difference. If you trade in your used car on a new one or a higher one then you just take—

Mr. Wood: It is the same sort of concept. So it is only that final value added—the difference between what he bought the car for and what he sells it for—that is being taxed. So he gets a full credit for what he bought the car for, or an implicit credit when its from a household, and then he pays on the reselling price. It is the same net effect.

Mr. Friedman: The individual would be better off because the dealer would pay him a grossed-up amount because he knew he would get a credit back from the government.

Mr. Wood: Surely the dealers are going to want the same total.

Mr. Friedman: That is another question. Looking at page 6-1, we talked about transportation and other services. The provinces are involved. Who gets the tax? It is very easy to say destination-based. If it turns out that Saskatchewan highways are used primarily to move goods from Manitoba to Alberta, and vice versa, I think Saskatchewan might be very upset they are not getting part of the transportation tax take. I am not sure what the impact is, but it again illustrates there is another little segment you have to be concerned with, if the provinces come in.

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After three days, 6-2, what choices have we? We have the GST, to modified calculated from books of accounts. You need to keep track of taxed purchases. There may be some compliance and administration difficulty, which may be very costly if you have exemptions. It is a tax not really used in any country in the world right now. It may either be that other countries are very misinformed or here truly is. . . obviously if you are eventually going to have more than one rate of tax, it will not work with a GST.

With a VAT system, because you are keeping track of taxes, you could have 20 rates of taxes, if you so wished, because a tax is a tax is a tax. Under a VAT, we have taxes and credits on individual items. There is an invoice

[Traduction]

M. Friedman: Elles sont taxées comme tout autre bien.

M. Wood: Je ne crois pas que les documents abordent la question des autres pays qui ont prévu un programme de crédit permettant au concessionnaire qui achète une voiture usagée d'obtenir un crédit pour la partie taxe mais l'obligeant de réclamer une taxe sur le montant total lors de la revente.

M. Layton: Et que dire de l'individu?

M. Minaker: A l'heure actuelle au Manitoba il s'agit simplement de payer la différence entre la nouvelle voiture ou la voiture plus chère que l'on échange contre sa voiture usagée.

M. Wood: C'est le même genre d'idées. Il s'agit simplement de taxer la valeur ajoutée en fin de compte—en d'autres termes la différence entre le prix d'achat de la voiture et le prix de revente de celle-ci. Ainsi donc il s'agit d'un crédit pour la valeur de la voiture à l'achat ou d'un crédit implicite lorsque la voiture a été achetée à un particulier et la taxe est calculée sur le prix de revente. L'effet net est le même.

M. Friedman: Cela serait bénéfique aux particuliers; le concessionnaire lui paierait en effet une somme supérieure parce qu'il sait qu'il pourrait obtenir un crédit du gouvernement.

M. Wood: Les concessionnaires voudront sans doute équilibrer les choses.

M. Friedman: C'est une autre question. Passons à la page 6-1. Nous avons parlé de transports et autres services. Les provinces entrent en ligne de compte. Qui obtient la taxe? Il est très facile de dire qu'il faut tenir compte de la destination. Si par exemple les grand-routes de la Saskatchewan sont utilisées principalement pour acheminer les denrées du Manitoba en Alberta et vice-versa, la Saskatchewan n'aimera sans doute pas se voir privée d'une partie de cette taxe sur les transports. Je ne pourrais dire exactement quel serait l'impact, mais cela illustre ne fois de plus le fait qu'il faut tenir compte de toute cette question si les provinces interviennent.

Nous nous sommes penchés pendant trois jours sur les questions soulevées à la page 6-2. Quels sont nos choix? La TBS est la taxe modifiée calculée à partir des livres de compte. Il faut ici avoir un bon système, il pourrait y avoir des difficultés d'application, ce qui pourrait être très coûteux dans le cas des exemptions. En fait il s'agit d'un système qui n'est utilisé dans aucun autre pays du monde à l'heure actuelle. Peut-être est-ce dû au fait que ces pays ne soient pas bien au courant ou peut-être. . . Il est certain que cette TBS ne fonctionnera pas dans un système autre qu'à taux unique.

Dans un système de TVA, étant donné que l'on tient compte du niveau des taxes on peut avoir 20 différents taux. Un système de TVA est un système de taxe et de crédit sur différents articles. Il faut fournir une facture, ce

[Text]

requirement, which tends to force suppliers to invoice, which perhaps minimizes leakage. But we still have some problems, where you sell mainly to consumers and where there is a low amount of inputs to sellers to consumers.

There are some real problems in policing of credits, real avoidance problems, or at least some financing situations. I will just leave you with one to think about, which we mentioned at the beginning of this period. If the Chairman and I were each involved in businesses, and perhaps we were related, I would say, Mr. Chairman, I will sell you my \$10 million plant. Under a value-added tax of 8%, that \$10 million plant would attract \$800,000 worth of tax. He puts a cheque in the mail for \$10.8 million, on the last day of his monthly filing period. He gets an instant credit. I do not receive the cheque or payment. I have not billed him yet. I do not receive payment until the first day of my quarterly input period. I do not have to pay the tax, which he already got back from the government, for three months, and he has use of \$800,000 of the government's money. This illustrates that you are going to have to have some anti-avoidance provisions in the rules. You will somehow have to ensure the security of government revenues.

Mr. Dorin: But if it is just a timing difference, the government is only losing the interest on the money. It is like the extra billion they get by advancing payroll deductions.

Mr. Minaker: He goes bankrupt.

The Chairman: The fact is I get the goods, I am invoiced for them, I claim the tax back, then I go bust, and the vendor writes the invoice off, because he never collected—

Mr. Dorin: That happens now, though.

The Chairman: —and buys the goods back again from the receiver, and claims the tax.

Mr. Friedman: It happens now, but at the federal sales tax level the tax is pulled out much more quickly. It does not go right to the retail level.

Mr. Dorin: Assuming there is something left in assets, after the guy is buried, the government is next up. Assuming the receiver comes in, if there is anything left at all, the government gets their money. I would not worry about bankruptcies.

Mr. Friedman: No, it is the timing. As David Weyman pointed out, I think companies have reorganized in the past for income tax purposes, just to lower their instalment base. It was just a financing gain. It was not an absolute gain. Although \$800,000 may not be a lot of money, the interest on \$800,000, for a quarter, is still substantial. It may be worthwhile for tax practitioners to go around and start moving assets around.

[Translation]

qui force les fournisseurs à tout consigner sur facture, ce qui à son tour minimise sans doute les fuites. Ce qui ne veut pas dire qu'il n'existe pas de problèmes dans le cas d'un système ayant recours à la TVA, notamment quand on vend surtout aux consommateurs et lorsque le montant des intrants aux vendeurs et consommateurs est faible.

Il existe de véritables problèmes cependant, notamment la surveillance des crédits, les problèmes d'évitement, qui sont très certains ou en tous cas les problèmes de financement. Je vais vous donner un exemple dont j'ai parlé au début de cette période. Supposons que le président et moi-même nous ayons tous deux des entreprises, que nous soyons apparentés. Je pourrais par exemple lui vendre mon usine de 10 millions de dollars. Dans un système de TVA de 8 p. 100, le montant de la taxe serait de 800,000\$. Il pourrait m'envoyer un chèque de 10.8 millions de dollars le dernier jour de sa période de déposition mensuelle. Il obtiendrait un crédit instantané. Personnellement je ne lui ai pas encore fait de facture. Je ne recevrai pas le chèque ou le paiement avant le premier jour du trimestre où je calcule mes intrants. Je ne dois pas payer la taxe qu'il a déjà récupérée du gouvernement, et cela depuis trois mois. Il a donc la possibilité de se servir de ces 800,000\$ qui proviennent directement des caisses du gouvernement. Il faudrait donc par conséquent prévoir des dispositions anti-évitement pour garantir la sécurité des recettes gouvernementales.

M. Dorin: Mais s'il s'agit simplement d'une différence de chronométrage le gouvernement ne perd seulement que l'intérêt sur cet argent. La même chose vaut pour ce milliard supplémentaire dû à l'anticipation des déductions sur les listes de paye.

M. Minaker: En fait il ferait faillite.

Le président: Après avoir obtenu les biens, présentement une facture, obtenu un remboursement de taxe, j'en pourrais très bien faire faillite, le vendeur pourrait très bien supprimer la facture parce qu'il n'a jamais reçu. . .

M. Dorin: Cela se passe déjà maintenant.

Le président: . . . et il pourrait racheter ses biens au syndic et réclamer la taxe.

M. Friedman: Cela se passe maintenant, mais avec la taxe de vente fédérale, celle-ci est retirée beaucoup plus rapidement. Cela ne va pas jusqu'au niveau du détail.

M. Dorin: Après la faillite, s'il reste quelque chose, ce sera au gouvernement à être remboursé en premier lieu. Personnellement je ne me préoccuperais pas trop des cas de faillite.

M. Friedman: Non, c'est une question de chronométrage. Comme David Weyman l'a dit, dans le passé, des compagnies se sont réorganisées simplement des fins d'impôt sur le revenu, tout simplement pour diminuer leur assiette à un moment précis, il s'agissait donc d'un gain non pas absolu, mais en termes de financement. Peut-être que 800,000\$ ne représentent pas beaucoup d'argent, mais l'intérêt sur cette somme perçue

[Texte]

[Traduction]

Mr. Wood: A point on that transaction, Andy, is that on real estate there is a special rule. There is a certificate rule, which is explained in the paper but not fully.

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Mr. Friedman: Not on machinery and equipment.

Mr. Wood: Presumably the certificate says the other guy has actually paid the tax. Perhaps it could be collected at the time the land is transferred, so the government ensures that it at least gets the money before it gets it back. It is possible there could be a different regime for real estate, as there is in some countries.

Mr. Friedman: I will sell you everything but real estate. I just illustrate this, not because it is not workable but because you do have to police it. We talked about the exempt and zero-rating options. Value-added tax is the traditional system used around the world and it is the one used in New Zealand. I would be interested in getting a call from you, Mr. Chairman, after your visit so that you can verify my page 2-1.

Finally, national sales tax is the same as VAT but with provincial participation. There will be accounting and billing problems if there are 12 different rates in 10 provinces and two territories. Peter alluded to the fact that a major provincial fiscal tool may be taken away or there is a perception that it was taken away. We just spent some time discussing one rate across Canada.

There is an alternative we keep coming back to. If I do not mention it, you will come back to it; that is, a one-stage retail sales tax, which in effect this is very close to. The Goodman committee recommended a retail tax. They said to look at the VAT but one-stage retail sales tax is an opportunity. Our concerns with it are, as we talked earlier today, the problem of tax on tax, on taxing inputs, and on being able to police exemption certificates. I think it is important enough that both my colleagues should say a few words about it. I sense from the committee that there is a concern about going through all this grief and aggravation if we could have a retail sales tax that achieves the same thing with less of a problem.

Mr. Hoffman: I have just two points. One I made earlier is that while many jurisdictions have retail sales taxes, they have been somewhat unsuccessful in alleviating

pendant un trimestre est assez important. C'est peut-être suffisant pour vouloir procéder à des réorganisations financières.

M. Wood: Au sujet de ce genre de transaction, Andy, il ne faut pas oublier que, dans le cas de l'immobilier, il y a une règle spéciale qui joue, celle du certificat, dont on fait état dans le document, même si on ne donne pas beaucoup d'explications à ce sujet.

M. Friedman: Il n'y en a pas sur la machinerie ni l'équipement.

M. Wood: Le certificat stipule que l'autre personne a bel et bien payé la taxe. Celle-ci pourrait être perçue au moment où le terrain est transféré ce qui permettrait au gouvernement de s'assurer d'avoir les fonds dans ses coffres avant le remboursement. Il pourrait évidemment y avoir un système différent dans le cas de l'immobilier comme dans d'autres pays.

M. Friedman: Je pourrais tout vous vendre sauf l'immobilier. J'illustre cela, non parce que le système ne marche pas, mais parce qu'il faut le surveiller. Nous avons parlé de l'exonération de la taxe et de la détaxe. Quant à la taxe sur la valeur ajoutée, il s'agit d'un système traditionnel utilisé partout au monde et spécialement en Nouvelle-Zélande. J'aimerais que vous me disiez ce que vous pensez de notre page 2-1 monsieur le président après votre retour dans ce pays.

Finalement, la taxe de vente nationale est la même que la taxe sur la valeur ajoutée, mais elle comprend la participation provinciale. Il y aura un problème de comptabilité et de facturation s'il existe 12 taux différents dans les 10 provinces et 2 territoires. Peter a dit évidemment que l'on enlèverait un outil fiscal, important pour les provinces, ou on semblerait le faire si l'on voulait uniformiser. Nous avons passé quelque temps à discuter d'un taux uniforme pour le Canada.

Il y a une autre possibilité à laquelle nous revenons sans cesse. Si je ne la mentionne pas vous le ferez vous-mêmes; il s'agit de la taxe de vente au détail unistade qui ressemble beaucoup à ceci. Le comité Goodman a recommandé une telle taxe au détail unistade qui serait bonne à leur avis, tout comme la TVA. Personnellement, comme nous l'avons dit plus tôt nous entrevoyons un problème étant donné qu'il s'agirait d'une taxe perçue sur une taxe, puisqu'il s'agirait de taxer les intrants. Il faudrait également pouvoir surveiller comme il se doit les certificats d'exemption. Je crois qu'il s'agit là d'une question suffisamment importante pour que mes deux collègues interviennent. Si je comprends bien, le Comité se préoccupe de tous les problèmes que cela pourrait présenter alors que l'on pourrait au contraire avoir une taxe de vente au détail qui viserait le même but sans tous les problèmes.

M. Hoffman: Deux commentaires: le premier, et je l'ai déjà fait auparavant, est le suivant: si beaucoup de juridictions ont des taxes de vente au détail, elles n'ont

[Text]

the problem of tax on business inputs. Again there is the suggestion that nearly a third of provincial taxes are collected from business inputs. Everybody acknowledges it is a problem. That is why many provinces are interested in value-added taxes.

As Peter pointed out, maybe the policing has not been there. If there was a retail tax in place jointly operated by the federal government and the provinces, maybe you could solve some of those problems. It is interesting that the white paper has not put that option on the table.

After spending three years on this topic, I still wonder why it is not on the table. I think the committee will undoubtedly be faced with that option at some point.

The Chairman: My own view from hearing you and your theory is that the tax really has to be borne by the ultimate consumer. This almost reinforces the suggestion to just tax all of the consumers. Why are we going through all of this problem of taxing everyone through the chain?

Mr. Hoffman: You must remember you have the retail tax mechanism in place with all the provinces, the infrastructure, it is all there right now for the most part with the exception of services, of course.

Mr. Wood: However, the provinces treat a number of goods very differently. For instance, real estate under these proposals or construction generally so that it is a totally... Although there are some people who are the same taxpayers, there would be many others in the system.

Mr. Hoffman: Yes. I am saying they are the same in that you are going to have the infrastructure there, but the problems of agreeing on what the base will be do not go away, of course. You still have to get—

The Chairman: You have that problem anyway, Lorey.

Mr. Hoffman: Yes.

Mr. Wood: Just quickly, Andy and I were chatting about why VAT was chosen in Europe. I must say that in looking at Europe and the multitude of exemptions and rates, it is not necessarily the best system to have from a technical point. For instance, in France it was introduced in 1954. Their rates are 2.1%, 4%, 5.5%, 7%, 13%, 18.6% and 33.33%. So you can imagine if you are a retailer selling all those sorts of goods what the problems are at the cash register.

[Translation]

cependant pas pu régler le problème de la taxe sur les intrants commerciaux. Apparemment près d'un tiers de la taxe provinciale serait perçu sur ces intrants. Tout le monde reconnaît qu'il s'agit là d'un problème. C'est la raison pour laquelle beaucoup de provinces aiment l'idée de la taxe sur la valeur ajoutée.

Comme Peter l'a dit, la surveillance du système a peut-être été le point faible. Si l'exploitation de la taxe au détail relevait conjointement des gouvernements fédéral et provinciaux, on pourrait peut-être résoudre certains de ces problèmes. Il est intéressant de remarquer que le Livre blanc n'a pas proposé cette option.

Après avoir étudié la question pendant trois ans, je me demande pourquoi l'option n'a pas été présentée. Je pense que de toute façon le Comité devra faire face à cette question un jour ou l'autre.

Le président: Personnellement, après vous avoir entendu, après vous avoir entendu expliquer votre théorie, j'estime que la taxe en fin de compte doit être imposée finalement aux consommateurs. Ce qui renforce cette idée de taxer purement et simplement tous les consommateurs. Pourquoi nous préoccupons-nous alors de vouloir taxer tout le monde en passant par la chaîne complète?

M. Hoffman: Il ne faut pas oublier que le mécanisme de taxe au détail existe avec toutes les provinces. Il s'agit là de l'infrastructure de base qui existe pratiquement pour tout à l'exception des services évidemment.

M. Wood: Cependant les provinces traitent un nombre de biens de façon très différente. Ainsi, dans le cadre de ces propositions, l'immobilier ou la construction... On ne ferait qu'ajouter d'autres personnes qui paieraient la taxe dans le système.

M. Hoffman: Oui. Ce serait les mêmes personnes puisque l'infrastructure resterait la même, cependant il faut quand même que l'on s'entende sur ce que sera l'assiette. Il faudra...

Le président: Vous avez ce problème de toute façon Lorey.

M. Hoffman: Oui.

M. Wood: Très brièvement, Andy et moi-même discussions de la raison pour laquelle la TVA a été retenue en Europe. Si l'on étudie la situation européenne et la multitude d'exemptions et de taux, ce n'est pas nécessairement le meilleur système d'un point de vue technique. Ainsi en France la TVA a été introduite en 1954. Les taux étaient de 2.1 p. 100, 4 p. 100, 5.5 p. 100, 7 p. 100, 13 p. 100, 18.6 p. 100 et 33.33 p. 100. Vous pouvez donc vous rendre compte des problèmes que cela pose au cours de la facturation lorsque l'on est un détaillant et que l'on vend des produits ayant des taux aussi différents.

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Mr. Friedman: Why did they start?

M. Friedman: Comment ce système a-t-il été introduit?

[Texte]

Mr. Wood: When the EEC was set up, they were set up with a set of rules. I believe the sixth directorate said that when you join you must have a VAT. France already had a VAT at the time it joined, and perhaps some of the other members did too. If you joined, you were required to introduce a VAT. And that is what happened in the U.K. in 1973. There was not a lot of discussion of what the various forms were. People followed what the directive said. Those were the rules of the game and they followed them.

The directive also talks about the base for tax. Most of the countries have to move to a more general common base. I believe food is one of the things that the member countries have to move towards taxing.

Mr. Friedman: Just as a Canadian speaking in the last minute as a Canadian citizen, I some while ago expressed private concern about something called rate creep. Once you put in a value-added tax, it is easy for whoever is in Parliament to just push a button and the rate goes up 1% and you have another \$3 billion. And before you say it cannot happen, GST started at 10%, and two years later it is going to 12.5%. So is it easy to move the rates up?

Speaking now as unpaid by the committee, this is not worth anything; it is just a concern that the average citizen may have. Once you put in an all-encompassing system, it is a lot easier to raise the rates.

Mr. Cassidy: Mr. Chairman, I promise not to ask half-hour questions. I just have a couple.

The Chairman: Well, do not worry about it; we are only going to give you one minute. We agreed to adjourn at noon.

Mr. Cassidy: With respect to the national sales tax, I do not see why you cannot get around the problem of exemption certificates by essentially allowing a credit to a business that can show it has paid the sales tax on inputs but is indeed selling its goods—either export goods, intermediary goods, or goods sold to a final consumer—provided it can demonstrate that the purchases were for inputs to produce goods and services later sold up the line.

Mr. Friedman: We already talked about this. Where it really concerned us was with farmers, who can now buy goods on an exempt basis. It is unfair to single them out, but if you now require them to pay all the taxes and keep the paperwork and then prove to somebody that they should have been exempt, you have a problem.

[Traduction]

M. Wood: Lors de la création de la CEE, différentes règles avaient été prévues. Si je ne me trompe le sixième Directeurat avait établi comme condition d'admission au sein de la CEE l'adoption d'un système TVA. La France disposait déjà d'un tel système au moment où elle est entrée dans le Marché commun, peut-être d'autres membres également. C'est ce qui s'est passé pour le Royaume-Uni en 1973. Il n'y a pas eu beaucoup de discussions sur les différentes possibilités. Les différents pays suivaient les directives tout simplement. C'étaient les règles du jeu.

Cette directive établissait également l'assiette de la taxe. La plupart des pays devaient se rapprocher d'une assiette de plus en plus large. Je crois savoir que les aliments devront bientôt faire partie de cette assiette.

M. Friedman: Je vous parle maintenant en tant que citoyen canadien. Il y a quelques temps j'ai exprimé certaines préoccupations quant à la possibilité d'une augmentation presque interceptible des taux. En effet, dans un système de TVA, il est facile pour les parlementaires de pousser simplement un bouton pour que 3 milliards de dollars se déversent dans les coffres de l'État. Le taux grimpe ainsi de 1 p. 100. Et avant que vous disiez qu'une chose pareille ne peut se passer, je vous dirai que la PBF a commencé à 10 p. 100 pour grimper quelques années plus tard à 12,5 p. 100. Il n'est donc pas difficile de faire augmenter les taux.

Je vous donnerai maintenant mon avis personnel comme si je n'étais pas à la solde du Comité. Et je vous dirai qu'il ne s'agit pas là d'un bon système du tout. Le citoyen moyen devrait d'ailleurs se préoccuper de cette possibilité. Une fois que l'on prévoit un système aussi global, il est beaucoup plus facile d'augmenter les taux.

M. Cassidy: Monsieur le président, je vous promets de ne pas poser des questions qui dureront une demi-heure. Je n'ai que deux questions à poser.

Le président: Ne vous préoccupez pas de cela, car nous n'allons vous donner que une minute. Nous avons en effet décidé d'ajourner à midi.

M. Cassidy: En ce qui concerne la taxe de vente nationale, je ne vois pas pourquoi on ne pourrait pas contourner le problème des certificats d'exemption en accordant en fait un crédit à une entreprise qui peut montrer lequel s'est acquitté de sa taxe de vente sur les intrants et qui vend des biens, biens d'exportation, biens intermédiaires ou biens vendus à un dernier consommateur—pourvu qu'elle puisse démontrer que les achats ont été faits pour des intrants destinés à produire des biens et services qui sont vendus par la suite.

M. Friedman: Nous avons déjà parlé de cette question. Cette question nous préoccupait surtout dans le cas des agriculteurs qui peuvent maintenant acheter des biens exonérés de taxe. Il n'est pas juste de les traiter différemment. Cependant si ces agriculteurs doivent acquitter des taxes, faire toutes sortes de paperasseries pour devoir ensuite justifier leurs exonérations, cela pose des problèmes.

[Text]

Suppose I build a \$100-million car plant. You are asking me to pay another 10% or 12% or 15%, keep all the paper, and hopefully a Revenue Canada auditor will show up one, two, three, whatever number of years from now. That is what we are trying to avoid.

In principle what you suggest is reasonable. In practice, when you have two million tax collectors, all those two million tax collectors are not going to be remitting funds. They will remit funds to you on their selling price, but they will also be remitting refund claims to you. So in effect you are suggesting a modified VAT. Instead of giving credits, we will give you credit when you give us all the support. Is that what you are suggesting?

Mr. Cassidy: Essentially. But the need to claim a credit exists under the other two systems, the GST and the value-added tax. So if you say what we are trying to do is to tax ultimate consumers and to exempt business inputs and to extend the taxing law across a much broader base than the present provincial tax or the manufacturers' sales tax, I do not see that the administrative problems are insuperable.

Mr. Friedman: Right now, on the assumption that most sellers' revenues will be greater than their purchases, under a VAT it is automatic, because they can just take a credit. You are suggesting you replace that with paper. I am suggesting if somebody as a bean counter is working out in business, it is not going to work. With 50,000 to 60,000 taxpayers, and that is maybe 3% of the number of taxpayers we are going to have, they are behind in the paperwork, months behind in refunds.

• 1200

The Chairman: You can talk to each other. The meeting is adjourned to the call of the Chair.

[Translation]

Supposons que je construis une usine d'automobiles de 100 millions de dollars. Je devrais donc dans un tel système verser une taxe de 10, 12 ou 15 p. 100 sur ce montant, garder tous les documents afin que peut-être un jour, un vérificateur de Revenu Canada puisse venir vérifier mes comptes et que je puisse ainsi être exonéré de la taxe. C'est ce genre de situation que nous tenons à éviter.

En principe, ce que vous suggérez est raisonnable. En pratique, il n'en va pas de même. Ces deux millions de personnes qui doivent payer la taxe paieront celle-ci sur le prix de vente et présenteront en même temps une demande de remboursement. Il s'agit donc là d'une version modifiée de la TVA. Au lieu de donner des crédits il faudra d'abord fournir tous les documents à l'appui. Et c'est ce que vous proposez de faire?

M. Cassidy: De façon générale, oui. En fait les deux autres systèmes, la TBS ainsi que la TVA prévoient également la réclamation d'un crédit. Ainsi donc je ne crois pas que les problèmes administratifs soient tellement insurmontables si l'on veut en fait taxer les derniers consommateurs, exempter les intrants commerciaux et élargir au maximum l'assiette par rapport à ce qui se passe à l'heure actuelle tant le cas de la taxe provinciale que de la taxe sur les ventes de fabricants.

M. Friedman: A l'heure actuelle, si l'on présume que la plupart des recettes des commerçants seront plus importantes que leurs achats, dans un système de TVA, c'est automatique, puisque les vendeurs peuvent obtenir un crédit. Vous proposez que l'on remplace tout cela par de la paperasserie. Personnellement je ne pense pas qu'un tel système pourrait fonctionner. Les 50,000 à 60,000 personnes c'est-à-dire peut-être 3 p. 100 du nombre total de tous ceux qui paieront la taxe se trouveront vite submergés dans la paperasserie et devront attendre des mois avant d'obtenir leur remboursement.

Le président: Vous pourriez parler entre vous. La séance est levée jusqu'à nouvel ordre.



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HOUSE OF COMMONS

Issue No. 138

Tuesday, February 2, 1988

Chairman: Don Blenkarn

CHAMBRE DES COMMUNES

Fascicule n° 138

Le mardi 2 février 1988

Président: Don Blenkarn

*Minutes of Proceedings and Evidence of the
Standing Committee on*

Finance and Economic Affairs

*Procès-verbaux et témoignages du Comité
permanent des*

Finances et des affaires économiques

RESPECTING:

Pursuant to Standing Order 96(2), questions relative
to the economic outlook

CONCERNANT:

En vertu de l'article 96(2) du Règlement, questions
relatives aux perspectives économiques

WITNESSES:

(See back cover)

TÉMOINS:

(Voir à l'endos)

Second Session of the Thirty-third Parliament,
1986-87-88

Deuxième session de la trente-troisième législature,
1986-1987-1988

STANDING COMMITTEE ON FINANCE AND
ECONOMIC AFFAIRS

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Vice-Chairman: Robert E.J. Layton

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Michael Cassidy
Mary Collins
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Murray Dorin
Raymond Garneau
Paul McCrossan
George Minaker
Aideen Nicholson
Marcel R. Tremblay
Norman Warner

(Quorum 7)

Marie Carrière

Clerk of the Committee

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(Quorum 7)

Le greffier du Comité

Marie Carrière

MINUTES OF PROCEEDINGS

TUESDAY, FEBRUARY 2, 1988
(208)

[Text]

The Standing Committee on Finance and Economic Affairs met at 3:37 o'clock p.m. this day, in Room 269, West Block, the Vice-Chairman, Robert Layton, presiding.

Members of the Committee present: Michael Cassidy, Simon de Jong, Raymond Garneau, Robert Layton, George Minaker, Aileen Nicholson and Norman Warner.

In attendance: From the Committee's Research Staff: H. Bert Waslander, Research Director.

Witnesses: From the Economic Council of Canada: Judith Maxwell, Chairman; Ross Preston, Senior Project Director, Performance and Outlook; Harvey Lazar, Director.

In accordance with its mandate under Standing Order 96(2), the Committee resumed consideration of questions relative to the economic outlook. (*See Minutes of Proceedings and Evidence, Thursday, January 21, 1988, Issue No. 132.*)

Judith Maxwell made an opening statement and, with the other witnesses, answered questions.

At 5:17 o'clock p.m., the Committee adjourned to the call of the Chair.

Marie Carrière
Clerk of the Committee

PROCÈS-VERBAL

LE MARDI 2 FÉVRIER 1988
(208)

[Traduction]

Le Comité permanent des finances et des affaires économiques se réunit aujourd'hui à 15 h 37, dans la pièce 269 de l'Édifice de l'ouest, sous la présidence de Robert Layton (*vice-président*).

Membres du Comité présents: Michael Cassidy, Simon de Jong, Raymond Garneau, Robert Layton, George Minaker, Aileen Nicholson et Norman Warner.

Aussi présent: Du personnel de recherche du Comité: H. Bert Waslander, directeur de la recherche.

Témoins: Du Conseil économique du Canada: Judith Maxwell, présidente; Ross Preston, directeur principal de projet, Perspectives économiques; Harvey Lazar, directeur.

Conformément au mandat que lui confie le paragraphe 96(2) du Règlement, le Comité examine de nouveau les questions relatives aux perspectives économiques. (*Voir Procès-verbaux et témoignages du jeudi 21 janvier 1988, fascicule n° 132.*)

Judith Maxwell fait une déclaration préliminaire, puis elle-même et les autres témoins répondent aux questions.

À 17 h 17, le Comité s'ajourne jusqu'à nouvelle convocation du président.

Le greffier du Comité
Marie Carrière

EVIDENCE

[Recorded by Electronic Apparatus]

[Texte]

Tuesday, February 2, 1988

• 1532

The Vice-Chairman: Order, please.

Pursuant to Standing Order 96.(2), we are considering questions relating to the economic outlook for Canada.

We have some special guests and witnesses from the Economic Council of Canada: Judith Maxwell, Chairman; Harvey Lazar, Director; and Ross Preston.

I welcome our witnesses to the Finance committee as we continue our prebudget review of the economic scene. We look forward to your remarks and to your comments to our questions.

Ms Judith Maxwell (Chairman, Economic Council of Canada): Thank you, Mr. Chairman. It is a pleasure to meet with you and hon. members of this committee today.

As I understand the purpose of these hearings, members are attempting to assess the environment in which the Minister of Finance is currently making his budget decisions. I also understand that you are especially interested in the impact of the stock-market crash last October.

Dans notre exposé annuel, *Un pari stratégique*, publié au mois de septembre, nous mettions l'accent sur le contexte international, à savoir les déséquilibres commerciaux entre les pays industrialisés, le déplacement du pouvoir économique dans le monde et l'instabilité du marché monétaire. Or, depuis le krach du 19 octobre, plusieurs de ces questions occupent l'avant-plan dans le débat public.

It is too soon to make definitive statements about the implications of the crash, but I would like to share some preliminary thoughts with you.

There are good reasons to believe the crash does mark a milestone for the global economy, but the changes we anticipate will take time to unfold. The preliminary fourth quarter data for the United States show the initial traces of a downside effect. Such traces include an increase in the personal savings rate, substantial inventory accumulation, and negative growth in real final sales. As far as Canadian data are concerned, the indicators available to date on prices, output, investment, and employment reflect little impact.

TÉMOIGNAGES

[Enregistrement électronique]

[Traduction]

Le mardi 2 février 1988

Le vice-président: La séance est ouverte.

En vertu du paragraphe 96.(2) du Règlement, nous examinons des questions relatives aux perspectives économiques du Canada.

Nous accueillons aujourd'hui des témoins et invités spéciaux du Conseil économique du Canada, à savoir Judith Maxwell, présidente; Harvey Lazar, directeur; et Ross Preston.

J'aimerais d'abord vous souhaiter la bienvenue au Comité des finances dans le cadre de l'examen pré-budgétaire des perspectives économiques. Nous avons bien hâte d'entendre votre exposé et les réponses que vous donnerez à nos questions.

Mme Judith Maxwell (présidente, Conseil économique du Canada): Merci, monsieur le président. Nous sommes ravis de vous rencontrer aujourd'hui ainsi que tous les membres du Comité.

Si j'ai bien compris, le but de ces audiences est de permettre à votre Comité d'évaluer le contexte dans lequel le ministre des Finances doit établir son budget. Je crois aussi savoir que vous vous intéressez particulièrement à l'impact du krach boursier d'octobre dernier.

In our annual review, *Reaching Outward*, published in September, we emphasized the global setting, that is the trade imbalances among industrial countries, the shifting balance of economic power in the world, and the instability of currency markets. Since the stock market crash of October 19, many of these issues have become matters of more general public discussion.

S'il est encore trop tôt pour se prononcer de façon définitive sur les incidences du krach, j'aimerais, néanmoins vous faire part de certaines observations.

Nous avons de bonnes raisons de croire que le krach boursier a marqué un jalon dans l'évolution de l'économie mondiale, mais nous pensons que les changements qu'il entraînera ne se manifesteront que progressivement. Les données préliminaires des Comptes nationaux en ce qui concerne l'économie américaine durant le quatrième trimestre de 1987 montrent les premiers signes d'un ralentissement. Notons, entre autres, une augmentation du taux d'épargne des particuliers, une accumulation importante de stocks et une croissance négative dans les ventes finales réelles. Pour ce qui est des données canadiennes, les indicateurs économiques traditionnels (prix, production, investissement et emploi) n'ont révélé que peu de changements jusqu'à maintenant.

[Texte]

Looking to the medium term, we have identified two basic qualitative changes in the financial markets that we believe will eventually have important consequences. The first is what I would call a new assessment of the risks associated with a more uncertain future, and the second is an increase in global sensitivity.

We appear to have entered an era where we will be facing a new order of stability problems in markets. In the past five years we have seen a virtual revolution in financial innovation—adding depth, speed, and liquidity to financial transactions. Until late 1987 the impact of all this innovation on the markets had been tested only in the climate of an economic expansion. Now that investors have experienced a downside correction, whose speed was certainly influenced by these innovations, the players must make a fundamental re-evaluation of risk.

• 1535

Financial institutions, for example, are likely to be more conservative in their assessment of risk. Bankers will probably make a different assessment of the quality of certain collateral from what they would have made several months ago. Over time, this type of decision will tend to increase the overall cost of credit.

The second fundamental change is that all the players in financial markets are now much more sensitized to the big systemic issues. In other words, trends in interest rates and exchange rates are determined by the forces set in play by the stubborn trade imbalances among the major industrial countries and the impasse on U.S. fiscal policy. This explains the market's current obsession with the monthly U.S. trade figures, for example.

Ces deux changements d'attitude à l'endroit du système influenceront sur le développement économique. Une plus grande incertitude chez les consommateurs, les producteurs et les investisseurs tendra à réduire les taux de croissance réels. Par ailleurs, l'économie aura tendance à générer moins d'inflation qu'elle ne l'aurait fait dans des circonstances analogues il y a quelque temps. En outre, en raison de leur interdépendance accrue, les pays voient encore davantage se réduire l'éventail des mesures indépendantes. Le krach leur a en effet montré que les systèmes de télécommunications ultramodernes reliant les grandes places financières mondiales ont également lié les ministres des Finances du Groupe des sept et limité leur marge de manoeuvre.

Markets have decided that what they need to maintain their confidence in this system is evidence that global imbalances are unwinding. This means, in effect, that the composition of growth in the United States must shift

[Traduction]

Nous avons néanmoins décelé dans les marchés financiers deux changements qualitatifs fondamentaux dont les conséquences, à notre avis, seront importantes à moyen terme. Le premier est ce que j'appellerais une nouvelle évaluation des risques associée à un avenir plus incertain, et le second, une plus grande sensibilité au contexte international.

Il semble que nous soyons entrés dans une ère où se posent de nouveaux problèmes de stabilité des marchés. Au cours des cinq dernières années, nous avons été témoins d'un vigoureux mouvement d'innovation financière, apportant plus de profondeur, de rapidité et de liquidités aux transactions financières. Jusqu'à la fin de 1987, l'effet de ce mouvement sur le marché ne s'est exercé que dans un climat d'expansion économique, c'est-à-dire dans des conditions de marché à la hausse. Mais les investisseurs ont fait, depuis, l'expérience d'un rajustement à la baisse dont la rapidité a été conditionnée par ces mêmes innovations, de sorte qu'ils doivent maintenant procéder à une réévaluation fondamentale de leurs risques.

Les institutions financières se montreront probablement plus circonspectes dans leur évaluation des risques. Elles apprécieront sans doute autrement qu'il y a quelques mois la qualité des biens donnés en nantissement. Avec le temps, ces effets auront tendance à faire augmenter le coût global du crédit.

Le second changement fondamental est que tous les intervenants du marché sont désormais beaucoup plus sensibles au fait que leur sort est lié aux grands problèmes systémiques. En d'autres termes, les tendances des taux d'intérêt et des taux de change sont le résultat de déséquilibres commerciaux tenaces entre les grands pays industriels et de l'impasse de la politique budgétaire américaine. Voilà ce qui explique, par exemple, l'obsession du marché à l'égard des données mensuelles relatives aux échanges commerciaux des États-Unis.

These two changes in system psychology will have an influence on economic development. More uncertainty in the minds of consumers, producers and investors will tend to depress real growth rates. In addition, economies will tend to generate less inflation than they would have under similar circumstances in the recent past. Moreover, the increased global sensitivity has essentially robbed national governments of even more of their scope for independent action in the setting of interest rates and in fiscal policy choices. In effect, the crash made them realize that those fancy telecommunications systems linking trading desks around the world have also bound together G-7 finance ministers in ways that limit their freedom of choice.

Les intervenants financiers ont décidé qu'il leur fallait, pour garder confiance dans le système, des preuves tangibles d'une réduction des déséquilibres internationaux. Cela signifie, concrètement, que la

[Text]

from being consumption driven to export driven, while surplus countries must shift from exports to consumption.

This is a difficult, but not impossible, transformation to do. It does place a heavy responsibility on policy-makers to back up the currency realignment with appropriate changes in fiscal and monetary policies.

Although the Canadian economic indicators available to date are still buoyant, the most recent U.S. data do show that a reassessment of the outlook is now in order.

À la suite du krach, de nombreux prévisionnistes américains ont réduit leurs projections de croissance d'environ un point de pourcentage pour 1988 à cause de ce que l'on a appelé l'effet de richesse du krach d'octobre. Si la même analyse laisse prévoir un impact bien plus faible au Canada étant donné la répartition des actions, il n'en demeure pas moins qu'à une croissance plus lente aux États-Unis correspondra une croissance plus lente des exportations canadiennes.

La nouvelle analyse des perspectives économiques réalisée par le Conseil montre que la croissance réelle au cours des deux ou trois prochaines années sera un peu inférieure à celle qui avait été prévue avant octobre. Nous vous soumettons un tableau comparant le scénario de référence présenté dans le 24^e exposé annuel et un nouveau scénario mis au point en janvier.

This overall assessment leads me to the following comments on the medium-term setting for fiscal policy:

First, the overall direction of the Canadian economy in the next few years will be determined largely by events outside our borders.

Second, the top priority must be to plug away at control of the federal budget deficit. This does not call for Draconian measures, but it does require very tight control on expenditures. Obviously the reform of the sales tax in stage two of tax reform is critical, from both an efficiency and a revenue-raising point of view.

Before I close, Mr. Chairman, I would like to draw to your attention the list of projects currently under way at the council. In tune with our medium-term focus, we have work under way in such areas as the prairie grain economy and new directions for regional development. We have work under way on international finance, on labour market issues such as employment and the service economy, unemployment, and some in-depth work on social policy.

[Translation]

croissance aux États-Unis doit être surtout mue par l'exportation, et non plus par la consommation, alors que dans les pays qui affichent des excédents, c'est la consommation plutôt que l'exportation qui doit devenir le moteur de la croissance.

Toute difficile qu'elle soit, cette transformation n'est pas impossible. Elle entraîne de lourdes responsabilités pour les décideurs de tous ces pays, qui doivent soutenir le réaligement des monnaies en apportant des modifications appropriées à leurs politiques budgétaires et monétaires.

Bien que les indicateurs économiques canadiens dont nous disposons pour le moment demeurent encourageants, les données américaines les plus récentes montrent qu'il est nécessaire de rajuster nos perspectives.

Following the crash, many U.S. forecasters reduced their projections of growth for 1988 by about one percentage point due to the so-called wealth effect resulting from the October crash. Because of the composition of shareholdings in Canada, a similar analysis for Canada yields a much smaller impact. Nonetheless, slower growth in the United States will mean less growth in Canadian exports.

The Council's reassessment of the economic outlook is that real growth over the next two or three years will be somewhat lower than what we had anticipated prior to October. We have attached a chart which compares the base case presented in the 24th Annual Review with an updated base case prepared in January.

Cette évaluation globale m'amène à faire quelques commentaires sur l'élaboration des politiques budgétaires à moyen terme.

Premièrement, l'orientation générale de l'économie canadienne au cours des prochaines années sera dans une large mesure déterminée par des événements extérieurs à nos frontières.

Deuxièmement, nous devons en toute priorité nous attaquer au contrôle du déficit fédéral. Cela ne signifie pas qu'il nous faille prendre des mesures draconiennes, mais qu'il faudra cependant exercer un contrôle très serré des dépenses. De toute évidence, la réforme de la taxe de vente prévue dans la deuxième étape de la réforme fiscale revêt à cet égard une très grande importance, tant du point de vue de l'efficacité que de celui des recettes.

Monsieur le président, vous me permettez d'attirer, en terminant, votre attention sur la liste de projets actuellement en cours au Conseil économique du Canada. Toujours dans une perspective à moyen terme, nos travaux actuels portent notamment sur l'économie céréalière des Prairies et les nouveaux mécanismes mis en oeuvre pour favoriser le développement régional. Nous avons aussi entrepris des travaux sur la finance internationale, le marché du travail, c'est-à-dire l'emploi et le secteur des services et le chômage, ainsi que des travaux d'envergure sur les politiques sociales.

[Texte]

In the visions project, we have undertaken a longer-range assessment of the issues facing Canada as we approach the year 2000. In preparation for the 25th Annual Review, we are doing new work on potential economic growth and the natural rate of unemployment.

• 1540

Our next major publication will be a document called "Managing Adjustment: Policies for Trade-Sensitive Industries", which is due out early in March, and soon after that, we plan to release the council's assessment of the Canada-U.S. trade agreement.

Thank you, Mr. Chairman. Those are our opening remarks. We look forward to your questions.

The Vice-Chairman: Thank you, Mrs. Maxwell. It is the custom of the committee to go around the table. Raymond, perhaps you would like to lead off with comments or questions.

M. Garneau: Madame Maxwell, merci pour votre visite. Je suis en train de prendre connaissance du document dont vous venez de nous faire lecture.

Je voudrais revoir avec vous les indicateurs économiques mis à jour en janvier et que vous nous fournissez à la dernière page de votre document. Dans le scénario original, on prévoyait des augmentations de 3 p. 100 du produit intérieur brut en 1988, de 2.3 p. 100, de 2 p. 100 et de 3.5 p. 100. On voit que ces chiffres ont été révisés à la baisse.

Je regarde la ligne des investissements réels. La proportion baisse un peu, mais quelle est la cause principale de la baisse du taux de croissance? Une baisse des investissements ou un financement plus difficile? Comment expliquer cette baisse? Évidemment, il y a eu le krach, mais pourquoi cela se produit-il ainsi? Quelles variables ont été modifiées dans votre tableau pour traduire en taux de croissance réel l'évolution à la baisse par rapport au scénario précédent?

Mr. Ross Preston (Senior Project Director, Performance and Outlook, Economic Council of Canada): The details of the difference, Mr. Chairman, between our original assessment for, let us say, 1988, which was 3% real growth, and the new assessment, which is 2.5%, are located primarily in the performance of both investment and consumption.

As a result of the crash we have done some analyses concerning business confidence and consumer confidence, and it is our judgment that the savings rate for personal consumers and the business investment rate for producers will in fact go in directions that will knock off that half point in growth.

We have also done a similar analysis for the U.S. For the U.S. the growth rate is not down a half percent, but almost a full percentage point. The initial pre-crash

[Traduction]

Dans le cadre de notre projet sur les «Perspectives canadiennes pour l'an 2000», nous avons entrepris une évaluation à plus long terme à laquelle notre pays devra faire face. En prévision de notre Vingt-cinquième exposé annuel, nous avons entrepris un nouveau travail sur la croissance économique potentielle et le taux naturel de chômage.

Nos prochaines publications importantes seront: «Sous les feux de la concurrence—L'adaptation dans le secteur manufacturier» qui doit paraître au début de mois de mars, suivi de près par une évaluation de l'Accord de libre-échange entre le Canada et les États-Unis.

Merci, monsieur le président. Ainsi se termine notre exposé liminaire et nous répondrons volontiers à vos questions.

Le vice-président: Merci, madame Maxwell. C'est la coutume au Comité de faire un tour de table. Raymond, vous accepterez sans doute d'ouvrir la période des questions.

Mr. Garneau: Mrs. Maxwell, thank you for coming today. I am still reading through the document from which you have just read excerpts.

I would like to discuss with you the January update of the economic indicators, which can be found on the last page of your document. In the original scenario, the base case projected a 3% increase of the gross domestic product in 1988 and increases of 2.3%, 2% and 3.5% in the following years. We now see that these projections have been revised downward.

I note that real investments will decrease slightly but what major factor explains the decrease in the rate of growth? A drop in investments, or greater difficulty in finding financing? What explains this decrease? Obviously the crash has had some effect, but why this decrease? Which changes in the variables in your table have led you to revise the base case projection to indicate a downward trend in the rate of real growth?

M. Ross Preston (directeur principal de projet, Perspectives économiques, Conseil économique du Canada): Monsieur le président, la différence entre le scénario de référence qui prévoyait en 1988 un taux de croissance réel de 3 p. 100 et le scénario mis à jour qui prévoit un taux de 2,5 p. 100 s'explique surtout par la performance des investissements et de la consommation.

À la suite du krach, nous avons fait des analyses sur la confiance des entreprises et des consommateurs et nous avons conclu que le taux d'épargne des consommateurs et le taux d'investissement des entreprises exerceront des pressions à la baisse sur le taux de croissance, qui perdra un demi-point de pourcentage.

Nous avons fait une analyse semblable pour les États-Unis où le taux de croissance perdra non pas un demi-point de pourcentage mais bien un plein point de

[Text]

notion for growth in the U.S. for 1988 was for numbers that were above 3%. The consensus in the U.S. now is for numbers that are between 2.5 and 2%. So, the full range of final demand activities—exports, some domestic consumption, and some investment—is just weaker as a result of the reassessment.

Mr. Garneau: You said that it will be a consequence of lower investment and consumption. If we do have a difference between the U.S. and Canada, is the difference in the way the savings in Canada are structured compared to the States? In the States you have more direct investment from an individual compared to Canada, where the savings are institutionalized through the RRSP and things like that. I am trying to understand why in the States the decrease in the rate of gross national product will be higher or greater than in Canada. Is it the way the savings are structured in both countries, or what?

• 1545

Mr. Preston: That is correct, Mr. Chairman. The analysis for the U.S. showed that the loss in consumption as a proportion of total consumption was much more than our anticipated loss in Canada. That is primarily because share ownership in the population is a higher percentage in the U.S. than in Canada, and second, the composition of share ownership in the U.S. versus Canada is more slanted toward individual ownership and less slanted toward ownership in pension funds and places like that.

As an example, the wealth effect as projected in the U.S. was thought to be in the range of about 4¢ to 6¢ on every dollar of wealth that disappeared. In Canada, it is thought to be about 2¢ to 4¢ for every dollar of wealth that disappeared, plus less wealth disappeared in the sectors that would make an impact on consumption. So it is the composition of savings and the composition of that wealth effect. In fact, we had considerable difficulty in essentially separating the impact of that wealth effect in Canada because it was considerably less than the impact we anticipated in the U.S.

Mr. Garneau: Is the lower rate of increase on the investment side due to the lack of confidence or higher costs for financing new investment?

Mr. Preston: Those numbers that are reported for investment include housing, and in our January reassessment the performance of the housing sector was thought to be a little worse, primarily because the Ontario boom is a hard thing to assess in terms of its downside effect. We did make some straightforward adjustments,

[Translation]

pourcentage. Avant le krach, nous avons calculé que le taux de croissance aux États-Unis en 1988 franchirait le cap des 3 p. 100. Le consensus aux États-Unis veut maintenant que ce taux se situe entre 2,5 et 2 p. 100. Ainsi, toute la gamme des activités liées à la demande finale—exportation, certains postes de la consommation intérieure et certains investissements—a dû être révisée à la baisse.

M. Garneau: Vous avez dit que c'est le résultat d'une baisse des investissements et de la consommation. La différence que nous constatons entre le Canada et les États-Unis s'explique-t-elle par l'absence d'uniformité dans la structure de l'épargne de nos deux pays? Aux États-Unis, les particuliers investissent plus directement que ceux du Canada où l'épargne est plutôt institutionnalisée étant donné la prépondérance des REER et autres mécanismes de ce genre. J'essaie de comprendre pourquoi aux États-Unis le taux de croissance du produit intérieur brut sera moins marqué qu'au Canada. Est-ce attribuable au fait que l'épargne est structurée différemment dans les deux pays?

M. Preston: C'est exact, monsieur le président. L'analyse que nous avons faite des perspectives américaines a révélé que la diminution de la consommation en proportion de la consommation totale était supérieure à la diminution prévue pour le Canada. Cela est surtout attribuable au fait que l'actionnariat populaire aux États-Unis atteint un pourcentage plus élevé qu'au Canada et aussi au fait qu'aux États-Unis les particuliers détiennent en propre davantage d'actions, alors qu'au Canada les actions sont davantage détenues par des fonds de pension et autres intermédiaires du genre.

Par exemple, nous avons calculé qu'aux États-Unis l'effet de richesse serait de l'ordre de 4c. à 6c. pour chaque dollar de richesse disparu. Au Canada, nous calculons que l'effet de richesse varie entre 2c. et 4c. pour chaque dollar de richesse disparu, en plus du fait que cette disparition a été enregistrée chez nous dans des secteurs qui ont une moins grande incidence sur la consommation. Ainsi, les résultats sont attribuables à la composition de l'épargne et à celle de cet effet de richesse. En fait, nous avons eu énormément de mal à isoler l'incidence de l'effet de richesse au Canada puisqu'elle était beaucoup moins marquée que celle prévue aux États-Unis.

M. Garneau: Le plus faible taux d'augmentation des investissements est-il attribuable au manque de confiance et aux coûts plus élevés de financement des nouveaux investissements?

M. Preston: Les statistiques de l'investissement englobent le logement et notre mise à jour de janvier reflète le fait que nous prévoyons un ralentissement dans le secteur du logement, surtout parce qu'il est difficile d'évaluer l'effet des pressions à la baisse sur l'essor économique en Ontario. Nous avons toutefois fait certains

[Texte]

especially in the area of machinery and equipment, because we did have some evidence that these decisions would be strung out and watched more carefully than prior to the crash.

[Traduction]

ajustements qui s'imposaient clairement, particulièrement en ce qui a trait au secteur du matériel et de l'équipement, puisque nous disposions de données indiquant que les projets d'investissement seraient échelonnés sur une période plus longue et que les décisions d'investissement seraient pesées beaucoup plus attentivement qu'avant le krach.

Mr. Garneau: Talking about the crash, I did not make a survey myself, but I talked to a few investment dealers. I am told that their underwriting departments are idle. I do not know if it is like that across the country, but those with whom I have exchanged points of view are telling me they are laying off people, cutting their underwriting department by a quarter, by half, by three-quarters in some instances. Is it going to be more difficult to finance new investment, or will the financing be done through debt instead of equity? In fact, it should not change the total amount of investment. I wonder if you have made an analysis of it.

M. Garneau: Parlant du krach, je n'ai pas fait d'enquête moi-même mais j'ai parlé à quelques courtiers en placement. Ils m'ont dit que leurs services de souscription sont inactifs. Je ne sais pas si la même situation existe partout au pays mais ceux à qui j'ai parlé m'ont indiqué que les maisons de courtage mettent à pied des employés, réduisent d'un quart, de moitié, et même des trois quarts dans certains cas, leurs services de souscription. Sera-t-il plus difficile à l'avenir de financer de nouveaux investissements ou est-ce que les financements par emprunt seront dorénavant préférés aux financements par actions? Le total des investissements ne devrait toutefois pas changer. Je me demande si vous avez fait une analyse à cet égard.

Mr. Preston: We have not made any straightforward analysis relating to the difficulty or ease with respect to equity financing, but my assessment is that equity financing would be a lot more difficult to come by after the crash than before the crash, primarily because of the rate of return effect.

M. Preston: Nous n'avons pas fait d'analyse comme telle de la difficulté ou de la facilité des futurs financements par actions mais j'estime pour ma part qu'il sera beaucoup plus difficile de lancer des financements par actions après le krach, surtout à cause de l'effet qu'il aura eu sur les taux de rendement.

Mr. Garneau: Also, the other factor you talked about, Ms Maxwell, when you said that

M. Garneau: Madame Maxwell, vous avez aussi parlé d'un autre facteur quand vous avez dit

l'analyse des risques sera plus difficile et va limiter un peu l'accès des gens qui prennent les décisions au financement de compagnies qui ne sont pas des AAA ou des AA. Est-ce bien l'effet?

that the assessment of risk will be more difficult in that decision makers will tend to restrict access to financing by companies who are not rated AAA or AA. Will that be the probable effect?

Mme Maxwell: Oui.

Ms Maxwell: Yes.

M. Garneau: Dans le cas des taux d'intérêt, votre mise à jour indique qu'il y aura une légère hausse et ensuite une baisse des taux réels. Il me semble que j'ai vu tout à l'heure l'évolution des taux d'intérêt. Est-ce que je me suis trompé ou est-ce bien le taux d'activité?

Mr. Garneau: According to your updated scenario, there will be a slight increase followed by a decrease in real interest rates. I thought I had seen earlier in the table projections on interest rates. I must have read interest rates instead of participation rate.

Mme Maxwell: Non, les taux d'intérêt ne sont pas indiqués dans le tableau.

Ms Maxwell: Interest rates are not indicated in the table.

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M. Garneau: Excusez-moi, c'est le taux d'inflation. Le gouverneur de la Banque du Canada nous disait que le problème le plus important était encore les perspectives d'inflation. Vos chiffres indiquent plutôt une baisse du taux d'inflation au cours des prochaines années. Êtes-vous d'accord avec le gouverneur de la Banque du Canada ou avec la Chambre de commerce du Canada qui recommande un relâchement de la politique monétaire? Compte tenu de l'évolution de l'inflation, est-ce qu'il n'y a pas une différence entre votre analyse et celle de la Banque du Canada?

Mr. Garneau: Excuse me, I meant the rate of inflation. The Governor of the Bank of Canada was telling us that the most important problem was still the risk of inflation. According to your figures, we should expect a drop in the rate of inflation during the forthcoming years. Do you agree with the Governor of the Bank of Canada or with the Canadian Chamber of Commerce which recommends a relaxation of the monetary policy? Keeping in mind the change in the rate of inflation, would you not say that there is a difference between your analysis and that of the Governor of the Bank of Canada?

Mme Maxwell: Tout ce que je puis dire, c'est qu'on a prévu une hausse du taux d'inflation en 1988, puis un

Ms Maxwell: All I can say is that we are forecasting an increase in the rate of inflation for 1988 followed by a

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plateau en 1989, et ensuite une baisse. La question de la politique monétaire est très vaste.

M. Garneau: C'est assez important. Si on se base sur votre scénario pour définir les politiques et qu'à moyen terme, soit dans un an et demi, on se trouve dans une période de déflation, maintenir des taux d'intérêt élevés et un dollar élevé par une action concertée de la Banque du Canada risque d'accentuer la baisse du taux de croissance de l'économie. On voit que vous projetez un taux de croissance de l'économie qui serait ramené à 1 p. 100 en 1990 avant de remonter. Est-ce qu'il ne serait pas plus sage d'adopter dès maintenant une politique monétaire un peu moins restrictive, comme le suggérerait la Chambre de commerce du Canada, pour essayer d'éliminer les effets néfastes du krach boursier, en espérant que le taux de croissance ne baissera que d'un quart de point au lieu d'un demi point ou d'un point? Compte tenu de votre analyse, quelle devrait être la politique gouvernementale?

Ms Maxwell: Monetary policy is really a short-term instrument of policy. It has to be focused on the here and now, whereas what we have tried to focus on in this outlook is the medium-term horizon.

What we have mapped out for you is a situation where we sit with Canada at this very moment with a buoyant economy, but we see forces accumulating in the environment that will lead to a slowdown during the medium-term horizon.

We can talk about a change in the mix of policy over that medium-term horizon, in the sense that if we have a fiscal policy that is more oriented toward reducing the deficit then it would be possible to relax monetary policy, particularly in the later part of this time period when we see far less pressure on the inflation side.

However, I do not feel it is appropriate for the council to be involved in a comment about where monetary policy should be at this point in time.

I think, though, that any remarks about monetary policy over the medium term have to be very much couched in the conditional, because we have capital markets in Canada that are very strongly integrated with the international environment and we see that international environment as being highly uncertain over the medium term.

Mr. Garneau: The rate of interest has an impact on the value of the Canadian dollar compared to the U.S. dollar, and eventually an impact on our exports. When you are making this scenario, what is the evolution of the value of the Canadian dollar compared to that of the States? Is it a stable dollar? Is it an increasing dollar?

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Ms Maxwell: In the medium-term timeframe we have a very modest upward movement in the Canadian dollar. On this time horizon it is driven primarily on the basis of the fact that we would expect to see some very modest improvement in our terms of trade in the sense that export prices would be rising somewhat more quickly in

[Translation]

plateau in 1989 and then a decrease. Monetary policy is a very intricate question.

Mr. Garneau: If policies are based on your scenario and if within a year and a half we will be faced with deflation, maintaining high interest rates and a high dollar through a concerted action by the Bank of Canada may endanger economic growth. You are forecasting an economic growth of only 1% in 1990 after which it will start to rise again. Would it not be wiser to have a slightly less restrictive monetary policy right away as the Canadian Chamber of Commerce was suggesting, in order to counter the negative effects of the stock market crash while hoping that the growth rate will decrease by one-quarter of a point only instead of one-half of a point or a whole point. On the basis of your analysis, what should be government policy in your view?

Mme Maxwell: La politique monétaire est un moyen d'action à court terme, visant la situation immédiate, alors que nous étudions la perspective à moyen terme.

En ce moment l'activité économique est très forte mais nous prévoyons divers facteurs qui devraient provoquer un ralentissement à moyen terme.

Les politiques pourraient donc être modifiées à moyen terme en ce sens que si la politique fiscale s'attache essentiellement à réduire le déficit, la politique monétaire pourrait être relâchée surtout à partir du moment où l'inflation commencera à baisser.

Cela dit, il n'appartient pas au conseil de se prononcer sur la politique monétaire actuelle.

Par contre on ne peut parler de la politique monétaire à moyen terme qu'au conditionnel, nos marchés financiers étant intégrés aux marchés internationaux, lesquels sont tout à fait imprévisibles à moyen terme.

M. Garneau: Les taux d'intérêt se répercutent sur la valeur du dollar canadien par rapport au dollar américain et éventuellement sur le niveau de nos exportations. Qu'est-ce que vous prévoyez au plan de parité entre le dollar canadien et américain? Le dollar canadien restera-t-il stable ou devrait-il augmenter?

Mme Maxwell: A moyen terme, nous prévoyons une légère hausse du dollar canadien, en raison d'une modeste amélioration de notre commerce extérieur grâce à une augmentation plus rapide des prix à l'exportation que des prix à l'importation vers la fin de cette période. Mais étant donné que nos taux d'intérêt se rapprochent toujours de

[Texte]

the later part of the period than would import prices. Because we have interest rates very much in line with those in the United States, we do not see much change in the value of the dollar.

Mr. Garneau: It is the assumption behind this scenario.

Ms Maxwell: Yes.

Mr. Garneau: I would like to move to the crash. I do not know if you want to continue on this subject and come back to the technicality of the crash. After October 17 we had the opportunity to discuss it in the House and many people raised the point you raised in your paper about the consequences of the use of technology and the rapid effect on the marketplace.

Are you aware of any study internationally by the Group of Seven or any other group to try to control or regulate the use of this new technology to buy or sell and the consequences it could have on the economy in the future? Are you aware of any studies or recommendations made by any brilliant minds around the world?

Ms Maxwell: As I understand it, the United States has four separate inquiries under way to look at the mechanics of the way the market is handled and the incredible wave of sell orders that came in on the morning of the October 19. Hearings are going on before a congressional committee this week in Washington to review the results of some of those reports.

Whether it is going to lead the regulatory authorities in the United States to issue regulations limiting the degree to which players in the market can use program trading or portfolio insurance, I am not sure. I think there is a whole other aspect to this question, which is that a lot of the players in the market have probably learned a great deal about how those new means of trading actually operate when the market has a downside vulnerability. We may see some changes in practice as well as some changes in regulation.

I think the point we were making is that we feel the types of innovation we are studying in a project we started earlier last year probably contributed to the speed of adjustment. Nonetheless the size of the adjustment in asset values can be explained by fundamental economic forces. Perhaps in earlier days the size of the adjustment would have taken place over a matter of weeks or even months, rather than in a few hours. We have to remember that some aspects of the technology would be very difficult to unwind. The markets are global and the psychology can move from one time zone to another almost instantaneously. We cannot turn back the clock on issues of that sort.

Mr. Cassidy: I have a number of questions. I want to thank you, Ms Maxwell, and the council for responding to what I think was the spirit of what the committee was trying to do when it asked the council to come before us in this pre-budget period. I helped to initiate that and I think perhaps we should broaden it in the future. I think our comments here, particularly some comments in

[Traduction]

ceux des États-Unis, la valeur de dollar canadien ne devrait pas trop fluctuer.

M. Garneau: C'est donc l'hypothèse que vous avez retenue pour votre scénario.

Mme Maxwell: Oui.

M. Garneau: Je voudrais maintenant passer au krach boursier. Après les événements du 17 octobre, on en a discuté à la Chambre et il a été question notamment des conséquences de l'informatisation du courtage et de ses répercussions sur le marché financier.

A votre connaissance, le Groupe des Sept ou d'autres instances ont-ils cherché à réglementer le courtage informatisé afin de réduire ses répercussions futures sur l'économie. Les spécialistes ont-ils avancé des recommandations à cet effet?

Mme Maxwell: Aux États-Unis, quatre enquêtes séparées suivent actuellement leur cours pour étudier justement le fonctionnement des marchés financiers et les raisons du déluge d'ordres de vente intervenu le matin du 19 octobre. Des audiences doivent avoir lieu devant une commission du Congrès cette semaine même à Washington pour examiner ces rapports.

Mais je ne sais pas si tout ceci amènera les autorités américaines à mettre en place une réglementation limitant le recours au courtage programmé et à l'assurance des portefeuilles. Un autre aspect de la question, c'est que les spécialistes de la Bourse ont beaucoup appris sur la façon dont ces nouvelles techniques fonctionnent en cas de crise. Il se pourrait donc qu'ils décident d'eux-mêmes de changer leur façon de procéder en dehors de toute réglementation.

Les innovations qui ont fait l'objet d'une étude que nous avons entreprises au début de l'an dernier ont certainement contribué à la chute des prix. Néanmoins, l'ampleur de la baisse peut toujours s'expliquer par des facteurs économiques fondamentaux. Il se peut qu'autrefois cette baisse se fût étalée sur plusieurs semaines ou plusieurs mois plutôt qu'en quelques heures. Mais certains aspects de cette nouvelle technologie sont difficiles à défaire. Les marchés financiers se sont globalisés et les effets psychologiques se feront ressentir à l'échelle internationale plus ou moins simultanément. Il n'y a pas moyen de revenir en arrière.

M. Cassidy: J'ai toute une série de questions à poser. Je voudrais remercier M^{me} Maxwell ainsi que le Conseil de comparaître devant le Comité en cette période qui précède le dépôt du budget. Ce que vous nous avez dit concernant l'évolution des marchés financiers après quatre ou cinq ans d'une internalisation accélérée, est fort intéressant, même si je ne suis pas d'accord avec vous.

[Text]

terms of the changing nature of the market after four or five years of very substantial internationalization of the financial markets, are helpful and provocative. I do not necessarily agree with them all, but they are a useful contribution.

I would like to begin with the question of unemployment. I want to ask a couple of things in this area and the first is related to your forecasts. As I understand it from the material you have enclosed with the statement, your updated forecasts in 1988 anticipate an unemployment rate for 1988 averaging 8.5% over the year. There was a very sharp run-up of employment or a run-down of unemployment that was much faster than had been anticipated in the latter months of 1987. I presume, because everything else is changed, that this is a fairly well thought through and intensively modelled conclusion, which suggests that the unemployment rate in Canada has probably bottomed out, and that there will be some modest and somewhat unfortunate increase in the unemployment rate during the course of 1988, partly related to that slowing down of growth. Is that right?

• 1600

Mr. Preston: Let me try to answer. If you look at employment growth and labour force growth, you will note that in years when you get continued substantial employment growth, at the same time, you get a pick-up in labour force growth from 2% to 2.5%.

Part of the reason you are seeing a planing-off of the unemployment rate is primarily that the substantial pick-up in activity during the end of 1987 and early part of 1988 is going to draw people into the labour force. This means you are getting a supply-side slowdown in the rate at which the unemployment rate can go down. In a sense, this is not something that we find to be peculiar or strange at the end of a long expansion, especially when you get a sort of a refueling of the expansion during its extended period of growth. You have to look at both the supply side and the demand side to understand the reasons why we feel unemployment rates are going to be hard to continue to push down as fast as they went down in 1987.

Mr. Cassidy: Let me be more specific. You have explained one of the reasons, which is that there will be a fairly substantial continued increase in the participation rate in 1988. People are drawn into the labour market because more jobs are available to them than there were before. For example, I am sure in Toronto now that in the informal market someone is calling a friend who used to work for him four or five years ago to say he has some jobs open and would appreciate it if the friend would come back to work, maybe half-time. So people are drawn back in through the informal networks as well.

The figures here say the unemployment rate we will see month by month in 1988, as reported by StatsCan, is going to be upwards of 8.5% during much of the year, since its beginning in 1988 at 8.1%. You estimate an average of 8.5% for the year.

[Translation]

Je voudrais commencer si vous le permettez par le chômage. D'après vos tableaux annexés à votre exposé, vous prévoyez pour 1988 un taux de chômage de 8,5 p. 100 en moyenne. L'accélération de la création d'emplois et la baisse du chômage durant les derniers mois de 1987 ont été plus fortes que prévu. Faut-il conclure d'après vos prévisions que le taux actuel de chômage a atteint un minimum et qu'il devrait enregistrer une légère hausse en 1988 imputable en partie au ralentissement de la croissance?

M. Preston: Si l'on examine les courbes de l'offre d'emploi et de la main-d'oeuvre active, on constate que les périodes de croissance de l'emploi concordent avec l'augmentation de la main-d'oeuvre active qui passe notamment de 2 à 2.5 p. 100.

La ralentissement du taux de chômage est dû en partie à la relance intervenue vers la fin de 1987 et au début de 1988 qui permet un accroissement de la main-d'oeuvre active. Le rythme de ralentissement du taux de chômage est donc fonction de l'offre. C'est tout à fait normal d'ailleurs au bout d'une longue période d'expansion qui vient de connaître un rebondissement. Il faut donc tenir compte aussi bien de l'offre que de la demande pour comprendre pourquoi nous prévoyons que la baisse du taux de chômage ne pourra pas suivre le même rythme que celui de 1987.

M. Cassidy: Vous venez donc de nous expliquer que le taux de participation à la main-d'oeuvre active continuera à croître en 1988. Le nombre d'offres d'emploi va donc augmenter. Ainsi à Toronto je suis sûr qu'il y a moyen de trouver de l'emploi en s'adressant à un ami pour lequel on a travaillé il y a quatre ou cinq ans et qui pourrait peut-être vous offrir à nouveau un travail, ne serait-ce qu'à temps partiel. C'est donc un moyen parallèle de trouver du travail.

Vous prévoyez donc pour 1988 un taux de chômage moyen de 8,5 p. 100 par rapport à 8,1 p. 100 en début d'année.

[Texte]

Mr. Preston: This is not inconsistent with the growth rate that is below 2% or 3%. In 1987 we had a growth rate that was pretty near 4%. It had a tendency to be very intensive with respect to job creation. The backside effect of it is its drawing of people into a labour market that is now very buoyant.

This is not something that is extraordinary or hard to understand, given the real slowdown from the kind of activity we have experienced in 1987, not only in Canada but also in the U.S. as a North American market.

Mr. Cassidy: I would like to turn to then a second question, which is—

The Vice-Chairman: Michael, could I interrupt just one minute? Your line of questioning prompted me to wonder whether in the statistical forecast we have in front of us, which you are referring to in terms of future labour force and employment development, the trade agreement effects, as they might have been anticipated by the Economic Council of Canada, have been factored into these forecasts.

Ms Maxwell: No, Mr. Chairman, there is no free trade effect in here.

Mr. Cassidy: In other words in 1989 it will be on the—

Ms Maxwell: The base case does not assume that the free trade agreement is put in place.

Mr. Cassidy: Not even the jobs created in my constituency by people arguing pro and con.

The Vice-Chairman: I was wondering about the ones the council had forecast, which we were so proud of.

Mr. Cassidy: May I turn then to my second question?

• 1605

When the council produced the report last August—and the council was criticized, I think with some justice, because of the fact that very quickly this whole fat volume was thrown aside by the proponents of the trade agreement once they could see 350,000 jobs. That was it. In fact, I believe at one point it was estimated at about 375,000. A lot of assumptions were built in, in which most of the projected increases in employment occurred in the services sector despite the fact that the impact of the trade agreement on services was not considered by the council and you assumed there would be no change in terms of treatment of services. And assumptions were made about productivity which were arbitrary, as most assumptions are, I grant you. Nonetheless, you injected something in there which people found perhaps a bit unrealistic.

At that time and later, I understand the council has been reassessing its forecasts and, in fact, so has the Department of Finance. Whereas the Prime Minister was telling us a year ago that the trade agreement meant half a

[Traduction]

M. Preston: Ceci est tout à fait conforme à un taux de croissance qui sera sans doute inférieur à 3, voire 2 p. 100, alors qu'en 1987, ce taux de croissance avait presque atteint 4 p. 100. Or tout taux de croissance assez élevé se répercute nécessairement sur la création d'emplois. Le marché du travail est donc très actif en ce moment.

Donc cette évolution découle naturellement du ralentissement de la conjoncture par rapport à ce que nous avons connu en 1987, non seulement au Canada mais dans l'ensemble de l'Amérique du Nord.

M. Cassidy: Je voudrais maintenant passer à ma deuxième question. . .

Le vice-président: Un instant, s'il vous plaît. Je voudrais savoir si dans vos prévisions relatives à la main-d'oeuvre active et au taux de chômage, il a été tenu compte des effets de l'accord commercial entre le Canada et les États-Unis.

Mme Maxwell: Non, nous n'en avons pas tenu compte, monsieur le président.

M. Cassidy: Donc en 1989. . .

Mme Maxwell: Nos prévisions ne sont pas basées sur la mise en vigueur de l'accord de libre-échange.

M. Cassidy: Vous n'avez même pas tenu compte des emplois créés dans ma circonscription par les partisans et les adversaires de cet accord.

Le vice-président: Je me posais la question au sujet de la création d'emplois dont nous sommes tous tellement fiers et qui a d'ailleurs été prévue par le Conseil.

M. Cassidy: Je voudrais donc maintenant passer à ma deuxième question.

Dans votre rapport du mois d'août dernier, qui a d'ailleurs été justement critiqué à mon avis, vous faisiez valoir que l'accord de libre-échange créerait 350,000 emplois nouveaux. Ensuite il a même été question de 375,000 emplois nouveaux. La plupart de ces emplois seraient créés dans le secteur des services mais, bien que vous n'ayez pas tenu compte des répercussions de l'accord sur ce secteur, partant du principe que les conditions de ce secteur resteraient inchangées. Les hypothèses en matière de productivité étaient également arbitraires, ce qui est d'ailleurs le cas de la plupart des hypothèses. Donc certaines de vos prévisions peuvent être taxées d'irréalisme.

Depuis lors, le Conseil a réexaminé ses prévisions ainsi d'ailleurs que le ministère des Finances. Alors qu'il y a un an le premier ministre affirmait que l'accord de libre-échange se traduirait par la création d'un demi-

[Text]

million jobs, when the government brought out their paper on the assessment of the free trade agreement on January 14, 1988, they cut that down to 120,000 jobs.

The Vice-Chairman: For the first five years.

Mr. Cassidy: In the first five years. That is sharply at variance with the upper end of the council's projections which were for some 350,000 jobs in more or less the same timeframe, after four or five years. Now the council is reassessing and I understand that your projections have in fact been scaled down. I wonder if you could indicate what the council's estimate is now, if you have one, in terms of the potential jobs at risk on the one hand and the potential for job creation, and the assumptions on which that is based.

Ms Maxwell: I would be very pleased to talk about that whole subject area. You have raised a lot of questions that I would like to try to speak to.

First of all, I do not accept the criticisms you have offered of the work we did last summer. I think as it turns out, the assumptions we made in our simulations with respect to services were quite appropriate given what turned out to be in the legal text. I do not think it is appropriate to call the council's work on productivity arbitrary. I think it is the best thought out and carefully researched piece of analysis of what is a difficult area, I agree. There is certainly room for differences of opinion, but in fact the work we have done on the productivity side is very highly respected by professionals in the field and I do not think your criticisms are appropriate.

Since we received the legal text in December, we have been reworking, using the same methodology and trying to adapt to take into account, in the quantitative sense, all that is in that agreement. Also, we have a much more ambitious project in this case in the sense that we are redoing the simulations but the council is also planning to issue a statement that will evaluate the free trade agreement between the two countries in a more comprehensive way. We are going to be discussing that with our council members in a few weeks' time and we hope to publish it before Easter.

I cannot give you any advance warning as to where the numbers will come out but I could just describe for you, if you want, the similarities and the differences between the hypothetical deal the council did simulate and release in the month of August and the actual agreement that has recently been signed.

The two cases are pretty much identical as far as tariffs are concerned. There are some fairly important differences with respect to non-tariff barriers in the sense that we had assumed that more of those non-tariff barriers would be removed than actually were removed in the deal that has been signed. For example, we had assumed the softwood lumber export tax would disappear, but in fact that has not been the case. There is also a smaller deal with respect to procurement than what we had initially included. We had assumed that all federal procurement

[Translation]

million d'emplois nouveaux, le 14 janvier dernier au moment de la publication du rapport du gouvernement sur l'accord de libre-échange, ce chiffre a été ramené à 120,000 emplois.

Le vice-président: Pour les cinq premières années.

M. Cassidy: C'est exact. C'est une forte chute par rapport aux 350,000 emplois prévus par le Conseil pour ces mêmes cinq premières années. Il paraît d'ailleurs que vous auriez réduit vos propres prévisions. Je voudrais donc savoir ce que vous prévoyez au plan de la création d'emplois nouveaux ainsi que de la perte d'emplois imputable à l'accord de libre-échange ainsi que les hypothèses sur lesquelles vous fondez vos calculs.

Mme Maxwell: C'est avec plaisir que je vais essayer de répondre à vos nombreuses questions.

Pour commencer, je ne saurais admettre vos critiques en ce qui concerne nos études de l'été dernier. Les hypothèses sur lesquelles nous nous sommes basés pour nos prévisions dans le secteur des services étaient les bonnes compte tenu du document juridique. Il est faux par ailleurs de dire que nos travaux sur la productivité étaient arbitraires. J'estime au contraire qu'ils constituent une excellente analyse très bien détaillée d'une question fort complexe. Les points de vue peuvent diverger bien entendu, mais tous les spécialistes vous diront que nos études sur la productivité sont d'un très haut calibre et je ne saurais donc accepter vos critiques.

Depuis que nous avons obtenu en décembre le texte de l'accord, nous avons remanié notre étude en prenant en compte toutes les données quantitatives figurant dans l'accord. Nous avons donc repris toutes les prévisions et, en outre, le Conseil compte publier une évaluation globale de l'accord de libre-échange entre nos deux pays. Nous devons justement discuter avec nos membres d'ici quelques semaines et notre rapport devrait sortir avant Pâques.

Je ne peux pas vous dire d'ores et déjà quels seront les chiffres précis, mais il m'est possible par contre de faire ressortir les différences entre le scénario hypothétique publié par nous au mois d'août et le texte de l'accord qui vient d'être conclu.

En ce qui concerne les droits de douane, il n'y a pas beaucoup de changements. Par contre, d'importants changements sont intervenus en ce qui concerne les obstacles non tarifaires, car nous avons exagéré le nombre de ces derniers qui ont été supprimés. Ainsi, nous pensions que la taxe à l'exportation sur le bois d'oeuvre serait supprimée, ce qui n'est pas le cas. Les changements au plan des marchés publics sont également moindres que ce que nous avons prévu. Nous étions partis de l'hypothèse que les marchés publics fédéraux de part et

[Texte]

on both sides of the border, with the exception of some aspects of military purchasing, would be opened up for competition across the border. We have in fact gotten very little access on procurement at the federal level and of course none at the provincial or municipal level. However, we had never assumed that.

• 1610

Areas in which we had not considered possible changes, but which now have to be analyzed, are the auto pact and energy. We have been doing a considerable amount of work there.

However, in the area of services where none of the existing barriers to trade have been altered, I do not think there is any reason for us to change in the quantitative sense. I think we all have to do some thinking about how trade and services between the two countries will evolve, in light of the fact that there is a standstill and no new barriers can be introduced.

I should possibly also clarify one other point, which is that the council's projections took place over an eight-year period and assumed immediate phasing in of all changes in the year of start-up, which at that time was the year 1987. There is therefore quite a difference in the time horizon between the Finance analysis released two weeks ago and what we had done and released in August.

I think the basic conclusion the council drew from our analysis in those simulations—and I perhaps should distinguish it from the conclusion some of our readers drew—was that the overall impact of a Canada-U.S. trade agreement would be positive but modest on the Canadian economy.

I think you would draw the same conclusion from the Department of Finance study, which has used a different methodology, a different type of model, and a different time horizon. Therefore I cannot give you a job-per-job comparison between the two studies.

Mr. Cassidy: What I am hearing you say, therefore, is that because your initial projection assumed that tariffs and the other changes would be implemented on day one, and although it remains to be seen what your numbers come out to, instead of applying in 1995, we are talking about a potential effect sometime at or beyond the turn of the century. Is that correct?

Ms Maxwell: In this case where we have phasing in over a 10-year period there will obviously be some industries whose tariffs disappear right away, and they feel very immediate effects, whereas others will have a gradually phased-in effect.

In our research we actually did two simulations, one with no phasing and one with phasing evenly over an eight-year period, and what we found was that at the end of the line the effects were identical. The phasing in is perhaps the strongest instrument that governments have to give people a chance to adjust in an orderly way.

[Traduction]

d'autre de la frontière, à l'exception des fournitures pour l'armée, feraient l'objet d'appels d'offres dans nos deux pays. Or, en réalité et contrairement à nos prévisions, les marchés publics fédéraux restent pratiquement exclus tout comme l'ont toujours été les marchés publics provinciaux et municipaux.

Par contre, nous n'avions pas envisagé de changements en ce qui concerne le Pacte automobile et l'énergie et nous allons donc devoir étudier ce dossier.

En ce qui concerne le secteur des services où les obstacles ont été maintenus, nos prévisions sont toujours valables. Il va falloir étudier plus en détail l'évolution du commerce et des services entre nos deux pays, étant donné qu'il sera désormais interdit d'instaurer de nouveaux obstacles non tarifaires.

Je tiens par ailleurs à préciser que nos prévisions ont été calculées pour une période de huit ans en partant de l'hypothèse que la totalité des changements entrerait en vigueur au départ, c'est-à-dire en 1987. L'analyse publiée il y a 15 jours par le ministère des Finances et notre étude du mois d'août dernier portent donc sur des périodes tout à fait différentes.

Je dirais donc que contrairement à certains de nos lecteurs, nous sommes arrivés à la conclusion que l'accord de libre-échange entre le Canada et les États-Unis aurait un impact positif mais modeste sur notre économie.

Il faut à mon avis tirer les mêmes conclusions de l'étude du ministère des Finances qui utilise une méthodologie, un modèle et un horizon différents. Il est donc impossible de comparer les deux études en fonction des différents métiers.

M. Cassidy: Étant donné que dans votre première étude, vous étiez partis du principe que tous les changements tarifaires seraient mis en vigueur dès le départ plutôt qu'en 1995, ce n'est que vers la fin du siècle qu'on commencera à ressentir les effets de l'accord.

Mme Maxwell: Puisqu'il a été décidé d'instituer une période de transition de 10 ans, les industries dans lesquelles les droits de douane disparaîtront immédiatement se ressentiront aussitôt des effets de l'accord alors que dans les autres secteurs, ces effets viendront petit à petit.

Notre étude a d'ailleurs fait deux prévisions: dans un cas, les changements seraient institués immédiatement et, dans l'autre, au cours d'une période de huit ans; or, nous avons constaté que dans les deux cas, les effets seraient identiques. En appliquant les changements graduellement, les gens pourront s'y habituer petit à petit.

[Text]

We felt that in those simulations it was appropriate to publish only the numbers that had immediate implementation, because it meant that we could work through those simulations over an eight-year time horizon, which is the time horizon in which we have the highest degree of confidence in the model. When you get past 10 years into 15 years, the models become more mechanical.

Mr. Cassidy: Can I be specific then. You are saying that the overall conclusion is that there are positive but modest impacts according to your numbers, and I would have to say from my knowledge of economics that to some extent the nature of the models makes it almost inevitable that will be the result.

However, if one took a specific year, say 1993, which is the year used by the Department of Finance, then what you are saying is that comparing your numbers now, based on phased-in implementations, with the numbers used in speeches and so on a few months ago, based on immediate implementation, for that intermediate period there was a sharp decrease in the projected number of jobs that will be or might be created by the trade agreement, let us say for four or five years after its implementation.

• 1615

Ms Maxwell: I am not sure if I have captured all the negatives in your question. Let me state it this way. If you were to phase in the deal according to a schedule similar to the one that has been agreed on, then you would stretch out those employment effects over a much longer period of time. So with immediate implementation, we found that by the eighth year in the hypothetical deal there were 350,000 jobs. What I could tell you now is that, if you had phasing in, you probably would not get to 350,000 jobs until maybe year 13 or year 12.

Mr. Cassidy: Therefore, in any year prior to the eighth year, the same kind of moderating effect will take place.

Ms Maxwell: Perhaps I could add one more point. I want to make it clear that we do not have any precise numbers to release that refer specifically to the trade agreement released by the government, but we do plan to release those numbers before Easter.

Mr. Cassidy: Okay.

Mr. Minaker: Mr. Chairman, I believe the study the government has put out of the 120,000 is based on five years, is it not?

The Vice-Chairman: That is right.

Mr. Minaker: My question to Ms Maxwell is this. In your study, in which you have the figure of 350,000 phased in over eight years, have you compared what the actual increase might be within five years to see how closely the two figures co-ordinate with one another?

Ms Maxwell: I cannot give you a number that compares directly with the Finance numbers in terms of

[Translation]

Nous avons décidé de ne publier que les chiffres qui seraient mis en vigueur immédiatement, ce qui nous a notamment permis de faire des prévisions pour une période de huit ans qui est la durée la plus fiable pour ce genre d'opérations. Quand on essaie de prévoir à 10 ou 15 ans, les résultats sont plus aléatoires.

M. Cassidy: Donc, d'après vos calculs, l'effet global de l'accord de libre-échange sera positif mais modeste, conclusion qui devait découler automatiquement des modèles que vous avez retenus.

Si on prend l'année 1993 utilisée également par le ministère des Finances, et compte tenu d'une mise en oeuvre graduelle de l'accord, les prévisions de création d'emplois sont en nette diminution par rapport aux chiffres avancés il y a quelques mois dans différents discours.

Mme Maxwell: Vous êtes extrêmement fort quand il s'agit de présenter l'aspect négatif des choses. Si l'accord doit être mis en vigueur selon le calendrier prévu, l'effet sur la création d'emplois va logiquement être étalé sur le temps. Si l'accord avait été mis en vigueur immédiatement, au bout de huit ans 350,000 emplois auraient été créés. L'accord devant être mis en vigueur par étape, ces 350,000 emplois nouveaux ne seront créés qu'au bout de douze ou treize ans.

M. Cassidy: Donc, au cours de chaque année jusqu'à la huitième année, le nombre d'emplois nouveaux ne sera pas aussi important que prévu.

Mme Maxwell: Je tiens à préciser que nous n'avons pas de chiffres précis à vous donner en ce qui concerne le texte sur l'accord de libre-échange publié par le gouvernement. Nous devrions avoir des chiffres d'ici Pâques.

M. Cassidy: Très bien.

M. Minaker: Les 120,000 emplois nouveaux évoqués par le gouvernement sont calculés pour une période de cinq ans, n'est-ce pas?

Le vice-président: C'est exact.

M. Minaker: Dans votre étude où il est question de 350,000 emplois nouveaux sur une période de huit ans, avez-vous également essayé de prévoir le nombre d'emplois nouveaux au bout de cinq ans?

Mme Maxwell: Je n'ai pas de chiffres que je puisse comparer à ceux publiés par le ministère des Finances.

[Texte]

phasing. As I said earlier, there are many, many differences in methodology and in the substance of the two deals, because they were modelling the actual agreement and we were doing a hypothetical agreement. I am sorry, I do not have them with me. But I can give you a copy of the table where we did show the effects on a year-by-year basis.

Mr. Minaker: On your gross, did it always stay in a straight line?

Ms Maxwell: It was a fairly smooth curve.

Mr. Minaker: So you probably would be around 150,000 or 180,000 or maybe 200,000 within five years anyway, even on your curve. With a straight line, you would go five-eighths of 350,000, which would be 205,000.

Ms Maxwell: I am sorry, I do not think we should try to extrapolate numbers on a curve we are all imagining.

Mr. Minaker: But that would be possibly the difference in the values. One is based on five years, and you say yours is based on eight years and that there is a—

Ms Maxwell: In the discussion paper we released in August, I believe there are some intermediate data given, and we could give it to you from that. But I am sorry, I did not bring a copy with me.

Mr. Cassidy: None of us, of course, would like to draw any political capital from any comments you might make.

Ms Maxwell: Of course not.

Mr. Cassidy: In fact, you are not going to come out with the specific results yet. What we can conclude, though, is that because of the phasing, because it is a different deal than you assumed, therefore in the medium term—that is, five years from implementation, for example—the number of jobs that might be created, even according to your numbers, will be quite substantially below what you had estimated in terms of the impact after five years of total implementation.

Ms Maxwell: Because of the phasing, the timing of when the job gains would occur will be altered, yes.

Mr. Cassidy: Now I would like to ask about the regional impact. When Richard Lipsey appeared before the House of Commons Committee on Trade and International Affairs, he indicated as a very respected and respectable economist that the regional problem, the regional disparities in this country, would continue. In other words, hopes that Newfoundland would suddenly come down to rates of unemployment or levels of income comparable to central Canada because of the trade agreement were perhaps a bit jejune. The Finance Department study also indicates it anticipates rates of growth that in fact are slightly higher after a trade deal in Ontario than they are in the Prairies or Atlantic Canada.

[Traduction]

Nos méthodologies ont l'air tout à fait différentes vu que le ministère des Finances s'est basé sur l'accord tel qu'il a été conclu alors que nous partions d'un accord purement hypothétique. Je n'ai donc pas ces chiffres, mais par contre je pourrai vous remettre un tableau qui montre les effets pour les différentes années.

M. Minaker: Est-ce que ces chiffres sont toujours restés sur une ligne droite?

Mme Maxwell: Sur une courbe plus ou moins égale.

M. Minaker: Donc même d'après vos prévisions, on devrait pouvoir compter sur 150,000 ou 180,000 voire 200,000 emplois nouveaux au bout de cinq ans. Si on parle d'une ligne droite on arrive à cinq huitièmes de 350,000, soit 205,000.

Mme Maxwell: On ne peut pas extrapoler des chiffres à partir d'une courbe imaginaire.

M. Minaker: Les calculs du ministère des Finances sont basés sur une période de cinq ans, alors que vous avez calculé sur une période de huit ans.

Mme Maxwell: Notre étude du mois d'août contenait des chiffres pour les intermédiaires, mais malheureusement je n'en ai pas un exemplaire sur moi.

M. Cassidy: N'allez surtout pas croire que nous allons essayer de profiter de ce que vous pourriez nous dire.

Mme Maxwell: Bien entendu.

M. Cassidy: D'ailleurs, pour le moment, vous ne pouvez pas nous donner des chiffres concrets. Ce qui est certain c'est que la mise en vigueur de l'accord conclu devant être étalée dans le temps, vos prévisions quant au nombre d'emplois créés doivent être revues à la baisse pour la période de cinq ans après l'entrée en vigueur de l'accord.

Mme Maxwell: Étant donné l'entrée en vigueur graduelle de l'accord, la création d'emplois nouveaux différera effectivement dans le temps.

M. Cassidy: Je voudrais maintenant vous poser quelques questions concernant les répercussions au plan régional. Lorsque M. Richard Lipsey a comparu devant le Comité sur le commerce et les affaires internationales, il nous a expliqué que les disparités régionales subsisteraient. Ainsi il serait naïf d'espérer que les taux de chômage à Terre-Neuve seraient brusquement ramenés au niveau de ceux du Canada central grâce à la magie de l'accord de libre-échange. D'après l'étude du ministère des Finances, le taux de croissance en Ontario, après l'accord commercial, devrait être légèrement supérieur à celui des Prairies et des Maritimes.

[Text]

[Translation]

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The Prime Minister, on the other hand, has spoken in different regions of the country—the poorer regions or regions that have had setbacks like Alberta—and told them they will be rich like Ontario if the trade deal goes through. I would like to ask you if, in the opinion of the Economic Council, the Prime Minister is correct in saying those regions will be rich like Ontario, or is Richard Lipsey, who is one of our most eminent economists, and the Department of Finance people... are they correct in suggesting the regions would be lucky if their growth rates exceed the growth rates of Ontario after a trade deal?

Mr. Garneau: That is a very good question.

The Vice-Chairman: It is a good thing he does not want to be political.

Ms Maxwell: Well, I am glad you are not being political, Mr. Cassidy.

What our research showed, as published in that discussion paper and in the annual review, is that the beneficial economic impacts are very evenly spread across the country, that the rate of increase in employment growth or in output growth was slightly lower in Quebec and Ontario than it was in the west and the eastern provinces.

I cannot tell you for sure whether that would stand up when we redo our simulations to reflect the actual agreement, because as I said to you, there are a number of important assumptions we have to change. So I would judge that the trade agreement per se, at least to the extent that we can model its quantitative effects, is not going to make a big difference in regional disparities in this country. In fact, the council has a research project under way at the moment that is trying to get at the question of what are the ingredients of successful regional policies, because we see that as being an important issue for the country to deal with in the 1990s.

Miss Nicholson: Mrs. Maxwell, am I right in thinking that the Lipsey studies and others were based on an assumption of pre-existing full employment in Canada, and if that is so, would that not result in a large overestimate of the jobs being created?

Ms Maxwell: Well, I do not think Prof. Lipsey has done very much quantitative work on this question. He has done some of the most important thinking, I think, in the country on this question, but the people who have done quantitative work are using two quite different types of models. The general equilibrium model, which is the one that does assume full employment, is the one you use to measure the effects over the very long term, say a 20-year horizon. What you are really trying to capture is how a

Le premier ministre, d'un autre côté, a fait des discours ici et là au Canada—et notamment dans les provinces les plus pauvres, ou dans celles qui ont connu certains revers, comme l'Alberta—en leur promettant une prospérité comparable à celle de l'Ontario, au cas où l'accord commercial serait approuvé. J'aimerais savoir ce qu'en pense le Conseil économique du Canada: le premier ministre a-t-il effectivement raison d'annoncer à ces régions qu'elles seront aussi riches que l'Ontario, ou est-ce Richard Lipsey, l'un de nos économistes les plus éminents, et le ministère des Finances qui sont du côté de la vérité lorsqu'ils pensent que ces régions auraient bien de la chance si leur taux de croissance dépassait celui de l'Ontario, au cas où l'accord commercial passerait?

M. Garneau: Voilà une très bonne question.

Le vice-président: Heureusement qu'il a décidé de ne pas s'engager sur le chantier de la politique.

Mme Maxwell: Je m'en félicite également, monsieur Cassidy.

Ce qui ressort de notre recherche, comme c'est indiqué dans le document de travail et dans le rapport annuel, c'est que les bénéfices économiques sont également répartis dans l'ensemble du pays, et que les gains de croissance dans le domaine de l'emploi ou de la production sont légèrement inférieurs au Québec et en Ontario de ce qu'ils sont dans l'Ouest et dans les Maritimes.

Je ne peux pas vous garantir de façon absolue que les conclusions resteraient les mêmes si nous reprenions nos modèles et simulations, en tenant compte de l'accord actuel, car, comme je vous l'ai dit, il y a un certain nombre de paramètres importants qu'il faudrait modifier. A mon avis, cet accord commercial, dans la mesure où nous pouvons en mesurer les effets quantitatifs grâce à un modèle, ne va pas modifier radicalement le problème des disparités régionales dans ce pays. Le Conseil a d'ailleurs un projet de recherche en cours, à l'heure actuelle, qui devrait permettre de préciser quelles doivent être les composantes d'une bonne politique régionale, question qui se posera de façon aiguë dans les années 90.

Mme Nicholson: Madame Maxwell, je pensais justement que les études de M. Lipsey, et certaines autres, portaient d'une situation de plein emploi, ce qui à mon avis risque de donner lieu à une surestimation assez grossière du nombre d'emplois qui seraient créés. Qu'en pensez-vous?

Mme Maxwell: Je ne pense pas que le professeur Lipsey ait fait beaucoup d'études quantitatives sur la question. Il fait partie de ceux qui ont beaucoup réfléchi à la question, dans ce pays, mais les études quantitatives utilisent en fait deux types de modèle complètement différents. Le modèle de l'équilibre général, qui fonctionne en situation de plein emploi, et celui dont on se sert pour mesurer les effets à très long terme, à 20 ans par exemple. Ce que vous cherchez alors à saisir c'est

[Texte]

shock like a trade agreement would affect the structure of the economy.

It is important to ask the question with that kind of an analytical tool, but we also need to ask the question: How would the economy make the transition from where it is now to a reasonably fully digested trade agreement? That is the kind of question we have asked in the work we have been releasing, using a macro-economic model. In that case you do not assume full employment. You start with the level of employment already existing in the economy, and then you try to figure out what the impacts will be on a year-by-year basis, allowing for the fact that the labour force will increase and that sort of thing.

In a sense, the macro-economic approach is there to help you try to get a measure of what kind of adjustment problems need to be dealt with, whereas the general equilibrium approach is there to give you a sense of the long-term structural changes that occur. In fact, we feel at the council that it is appropriate to look at it both ways, that you can learn from both types of analysis, and we have had some contract research done by some people at McMaster University to do the general equilibrium type of analysis for us, so that when we release all of our technical work on this you will be able to see both approaches.

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The general equilibrium work in Canada has been done by the Department of Finance and by Harris and Cox, and I believe by one other researcher, John Walley. The macro-economic work has been done by the council, Informetrica, and one or two other groups.

Mr. Warner: In your presentation you mentioned the need for improved co-operation among the major economies in co-ordinating their economic policies. This is something we have heard from many international bodies over the last couple of years—the OECD, the IMF...

How do you assess the work that has been done in that area in the last couple years to date, and how do you project ongoing meetings as being effective in meeting these goals?

Ms Maxwell: We are watching a very difficult political process unfold, which we can all understand. Governments are elected to govern within a particular set of borders and their constituencies are internal, so their motivations for making policy tend to be very much domestically driven.

It becomes quite difficult for governments to acknowledge the constraints that come from the international arena, and particularly very difficult when you have a globalized system like the one we have now, where each government is called upon in one way or

[Traduction]

l'onde de choc à laquelle serait soumise la structure de notre économie en cas d'accord de libre-échange.

Ce genre d'outil analytique permet de poser la question, et c'est important, mais il y a une autre question à laquelle il faudrait répondre: comment notre économie peut-elle faire la transition entre l'état actuel des choses et une situation où l'accord commercial aura été raisonnablement bien digéré. Voilà donc la question que pose le travail que nous avons publié, et dans lequel nous utilisons un modèle macro-économique. Dans ce genre de modèle vous ne partez pas du plein emploi. Vous partez du niveau réel de l'emploi, et vous essayez ensuite de suivre la situation d'année en année, en tenant compte de l'évolution possible de certains facteurs, population active, etc.

L'approche macro-économique d'une certaine manière doit vous aider à mesurer à quels problèmes d'ajustement vous aurez à faire face, alors que le modèle de l'équilibre général doit vous donner une idée de l'évolution structurelle à long terme prévisible. Le Conseil estime que les deux modèles sont utiles, que les deux types d'analyses ont des enseignements à vous apporter, et nous avons d'ailleurs fait faire sous contrat, à l'université McMaster, certaines recherches se servant du modèle de l'équilibre général, et lorsque nous publierons toutes nos études techniques sur la question, vous verrez que nous nous servons des deux modèles.

Le modèle de l'équilibre général a été utilisé par le ministère des Finances, par Harris et Cox, et si je ne me trompe par John Walley également. Le conseil Informetrica, ainsi que un ou deux autres groupes d'économistes se sont servis du modèle macro-économique.

M. Warner: Dans votre exposé, vous parlez de la nécessité d'améliorer la coopération entre les grandes économies nationales. C'est également ce que nous ont répété depuis deux ans certaines grandes organisations internationales, l'OCDE, le FMI...

Que pensez-vous du travail qui a pu être fait depuis deux ans pour essayer de progresser dans ce sens, et pensez-vous que les réunions qui ont lieu régulièrement permettront effectivement d'aboutir?

Mme Maxwell: Le processus politique à la mise en place duquel nous assistons est laborieux, et ce n'est pas surprenant. Les gouvernements nationaux sont élus pour agir à l'intérieur d'un certain cadre, leurs premières responsabilités sont à l'égard de leurs électeurs, et leurs décisions politiques répondent surtout à des impératifs nationaux.

Il est alors très difficile pour les gouvernements d'accepter les contraintes de la scène internationale, et à l'heure du village global il leur reste difficile de faire les concessions que l'on demande aux uns et aux autres pour permettre à l'ensemble du système de fonctionner sans

[Text]

another to make some kind of a contribution to the smooth functioning of the system as a whole. There are unquestionably tensions between the domestic motivation and the sense of global responsibility.

We have seen numerous meetings by the Group of Seven, and groups of five and groups of three. In fact, one wag wrote an article saying that the group of five was at sixes and sevens; I think that was his title.

The evaluations I have seen put a lot of emphasis on the constructive contributions that have been made by such things as the Plaza Meeting of September 1985 and on the importance of the Louvres Agreement of one year ago.

Mr. Warner: On that agreement, at that time, which was about a year ago, they agreed to attempt to stabilize major currencies at approximately the same level, but during the last year we saw anything but stability.

Would you not say that the co-operation and the efforts seem to have failed miserably and would indicate that perhaps this process is closer to being impossible than to being merely difficult?

Ms Maxwell: Well, there is no question that they picked the wrong floor. If you think of it in terms of the Plaza Agreement, that was an agreement for a soft landing on the depreciation of the dollar. The Louvres Agreement in a sense was a decision to try to find the floor for that defence of the dollar, but the markets did not accept that as being the floor so we have had significant further depreciation of the U.S. dollar.

Also, what markets have become increasingly impatient about is the lack of progress on the U.S. trade deficit and the lack of progress on U.S. fiscal policy. In fact, economists do expect to see that the depreciation will begin to have a significant impact on the trade figures some time soon. There is evidence in the volumes of trade flows, in fact, that there is an impact there.

The things in play here are the impatience of markets wanting to see progress and the reluctance of governments to make policy decisions that go beyond where they wish to be in terms of their own domestic context.

On the question you asked me—is it going to be possible or is it going to be too difficult?—events like the crash and the fear of failing, the fear of what could happen if in fact appropriate policy measures are not taken, will have an important bearing on policy decisions. It is a form of brinkmanship, if you want, which is quite uncomfortable for participants.

• 1630

Mr. Warner: Two of the currencies that have tended to be fairly close together have been the U.S. dollar and the

[Translation]

accroc. Il y a donc, cela ne fait aucun doute, les tensions résultant de ce jeu de l'intérêt national et de la responsabilité globale.

Nous avons assisté à un certain nombre de réunions du Groupe des Sept, de celui des 5 ou des 3. Un plaisantin a même un jour écrit un article en disant que le groupe des 5 faisait maintenant 6 et 7; je crois que c'était le titre de l'article.

Les constats dont j'ai pu prendre connaissance mettent l'accent sur l'aspect constructif de réunions comme celle du Plaza de 1985, ainsi que sur l'importance des accords du Louvre d'il y a un an.

M. Warner: A l'époque, c'est-à-dire il y a environ un an, les intervenants s'étaient entendus pour stabiliser les grandes monnaies au niveau auquel elles se trouvaient, ce à quoi nous assistons depuis un an c'est tout sauf de la stabilité.

N'avez-vous pas l'impression que cette coopération, et les efforts qui sont déployés dans ce sens, ont échoué lamentablement, ce qui pourrait nous laisser penser que tout cela est en fait pratiquement impossible, plutôt que simplement laborieux?

Mme Maxwell: Il ne fait aucun doute qu'ils se sont trompés sur la valeur plancher. Cela vaut pour l'accord du Canada, qui devait aménager une dévalorisation en douceur du dollar, mais également en ce qui concerne l'accord du Louvre, qui prévoyait la fixation d'une valeur limite pour la défense du dollar, valeur que les marchés n'ont pas du tout acceptée si bien que le recul du dollar s'est poursuivi de façon importante.

Il est vrai également que les marchés ont été de plus en plus irrités par le fait que le déficit commercial américain et le déficit budgétaire ne s'amélioraient guère. De leur côté les économistes pensent que la dévalorisation du dollar va commencer très bientôt à avoir des répercussions non négligeables sur les échanges. Le volume des échanges commerciaux l'atteste déjà.

Ce qui est en jeu ici c'est l'impatience des marchés, qui aimeraient voir les choses progresser alors que les gouvernements hésitent encore à prendre des décisions politiques qui seraient contraires à leurs intérêts nationaux.

Revenons à la question que vous m'avez posée: est-ce que ça va être possible, ou est-ce trop difficile? La dernière catastrophe boursière, la crainte de l'échec, la crainte de ce qui pourrait se passer si l'on se trompe de politique, tout cela va avoir des répercussions importantes au niveau de la prise de décisions politiques. Il y a un espèce de quitte ou double, si vous voulez, tout à fait inconfortable pour les acteurs du drame.

M. Warner: Il y a deux monnaies qui restent en général très proches l'une de l'autre, le dollar américain et le

[Texte]

Canadian dollar, which of course is very important for us, and probably has been very encouraging, because that is probably one of the most significant currency exchanges that affects us.

You were here one time when the Canadian dollar was around the 70¢ level. You indicated then that an economist basket of goods could be purchased—\$1 could purchase about 80¢ in the United States of this hypothetical basket. I am wondering what our dollar would purchase today. Are you still looking at the 80¢ basket of goods? Can our dollar now purchase more?

Ms Maxwell: In the last couple of years, the rates of inflation in our two countries have been relatively close. The U.S. rate of inflation has been slightly lower than Canada's, but basically the two countries have been tracking. So there should not have been very much change in the purchasing-power parity analysis of relative exchange rates.

Mr. Warner: What pressures do you see now on the U.S.-Canadian dollar exchange rate? I know it is hard to do. If you could predict the trends, that would be great, but do you see pressures coming out of the free trade agreement that may affect our dollar, and which way would that be? Or do you see other factors that may have tendencies to push the dollar one way or the other?

Ms Maxwell: In the medium to long term, the factors that will alter the value of a currency are relative rates of inflation. On that count, Canada and the United States seem to be very close these days. There is no reason to suggest a significant change in the exchange rate on that count. Another factor that will influence it is relative rates of productivity growth, and neither country has been performing all that well in recent years. I think maybe we have been a bit ahead in the last couple of years. Is that correct, Ross?

I guess the question would be whether you believe the trade agreement would be a greater stimulus to productivity growth in Canada than it would in the United States, and, if so, over time any acceleration in growth in productivity here could then lead to a comparable increase in the exchange rate.

The third factor influencing the exchange rate is capital flow, and it seems to me that in the last year this has in fact been the most important factor for Canada, in the sense we have become an attractive investment location for overseas investors, especially Japanese investors, I gather. That choice of where international pools of funds choose to go is based on a whole array of factors, which include confidence in the way the country is run, but in this case may even reflect a sense that if there is going to be a Canada-U.S. trade agreement this might be a good

[Traduction]

dollar canadien; cela n'est pas sans importance pour nous, et c'est même sans doute très encourageant, étant donné le rôle que joue pour notre économie le rapport entre nos deux monnaies.

Nous vous avons entendu à une époque où le dollar canadien valait à peu près 70c. U.S. Cela veut dire, comme vous nous l'aviez expliqué, qu'on pouvait, en prenant un certain nombre de biens et marchandises témoins, acheter, avec un dollar canadien, pour 80c. U.S. de ces marchandises. Que permettrait aujourd'hui d'acheter notre dollar? Aurions-nous encore l'équivalent de 80c. U.S. de marchandises? Ou est-ce que ce serait plus?

Mme Maxwell: Depuis deux ans les taux d'inflation de nos deux pays sont restés relativement solidaires. Le taux d'inflation américain a été légèrement inférieur au taux canadien, mais on peut dire en gros qu'ils ont évolué de façon parallèle. La parité des monnaies est donc restée à peu près la même, et le pouvoir d'achat de notre dollar également.

M. Warner: A quelles pressions va être soumise, à votre avis, cette parité? Je sais qu'il est difficile de prévoir les tendances, ce serait évidemment merveilleux; est-ce qu'à votre avis cet accord commercial va avoir des répercussions sur la tenue de notre dollar, et dans quel sens? Pouvez-vous d'ores et déjà prévoir un certain nombre d'autres facteurs d'une évolution dans un sens ou dans l'autre?

Mme Maxwell: A moyen ou à long terme, c'est le différentiel des taux d'inflation qui risque le plus d'affecter la valeur de notre monnaie. Dans ce domaine la situation canadienne et celle des États-Unis continuent à évoluer de façon parallèle. Rien ne laisse donc penser qu'il y aura une évolution radicale de cette parité. Il y a également un autre élément qui entre en ligne de compte, et c'est celui de la productivité et de sa croissance, domaine dans lequel ni l'un ni l'autre des pays n'a obtenu récemment de très bons résultats. Peut-être avons-nous été un petit peu en avance sur les Américains dans ce domaine au cours des deux dernières années. Est-ce que je me trompe, Ross?

La question qui se poserait serait celle de savoir si cet accord commercial se traduira par des gains de productivité plus importants au Canada qu'aux États-Unis, et dans ce cas, cela pourrait se traduire, à long terme, par un raffermissement de notre dollar.

Le troisième facteur qui influence ce taux de change est celui des mouvements de capitaux, phénomène qui a joué un rôle important dans l'économie canadienne l'an dernier, puisque nous sommes devenus un pôle d'attraction des capitaux étrangers, et notamment japonais. Le choix des investisseurs étrangers se fait en fonction d'un ensemble de facteurs, et notamment la confiance qu'ils peuvent avoir dans la direction du pays, mais dans ce cas précis je pense que l'éventualité d'un accord commercial canado-américain a redonné de

[Text]

place to invest. So it could influence on the second factor as well.

Mr. Warner: Perhaps just on that basis, the government would get a good report card. As far as international investors are concerned, they find Canada very attractive. If the government had not been managing the economy in a responsible way, or a way they perceived as being responsible, this would not have happened. So we can take that as being very positive.

Mr. Minaker: In the factors you deal with, predictions and so on, you mention about the confidence in the way the country is run. Would the council take into consideration such things as the Meech Lake accord, where we have now pulled the country together as a single unit and we are working together, in the eyes of the outsiders? Do you take that into account when you predict or try to project foreign investment, and so on, or the confidence in the country?

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Ms Maxwell: I would not presume to put myself inside the head of these international—

Mr. Minaker: No, I am talking about when you evaluate these non-tangible items you use.

Ms Maxwell: Certainly I think intangible small "p" political judgments on a country have an impact. It is interesting to note that the point at which the Japanese investors appeared to take a renewed interest in Canada was the point at which they became less interested in holding so many of their assets in U.S. dollars and were looking for a way of diversifying their risk by making investments in other currencies and in other countries.

So, yes, good management is important, but I guess it depends on whether you are viewed as being better or worse than other potential locations for their choices of investment.

Mr. Minaker: That is not the point I am raising. You are talking management would be looking after your deficit and what have you. I am talking about the fact where you could have half or a quarter of your country not happy with the other three-quarters and that there seems to be a concern that they try to break away. I would imagine that would have some impact on foreign investment, would it not?

Ms Maxwell: Yes, I think that would probably be one consideration. But, again, investors go through a very complex process in terms of choosing how they will balance their portfolios.

Miss Nicholson: I note on page 2 of the council's view that we will see a demand for equity investment on the part of financial institutions wishing to enhance their own ability to withstand any future market shocks that should occur.

[Translation]

l'intérêt à notre pays. Ce qui, en retour, pourrait également influencer le deuxième facteur dont je vous parlais.

M. Warner: On peut donc s'attendre à ce que le bulletin du gouvernement s'en ressente dans le sens positif. Les investisseurs étrangers ne s'intéresseraient pas au Canada si notre gouvernement n'avait pas géré l'économie du pays de façon responsable, ou du moins d'une façon que l'on juge responsable. Voilà donc quelque chose de très positif.

M. Minaker: Parmi ces éléments dont tiennent compte les investisseurs pour prendre leurs décisions et faire des prévisions, vous citez la confiance dans la direction du pays. Le Conseil citerait-il alors au nombre de ces éléments, l'accord du lac Meech, dans lequel les étrangers pourraient voir un facteur d'unité et de collaboration entre Canadiens? Et puisque vous parlez de la confiance que les investisseurs étrangers peuvent avoir dans nos gouvernants, est-ce que vous en tenez compte quand vous cherchez à prévoir les mouvements de capitaux?

Mme Maxwell: Il serait peut-être un peu présomptueux de croire que je peux prévoir. . .

M. Minaker: Non, je veux parler de ces éléments qui ne sont pas mesurables, et dont vous tenez compte.

Mme Maxwell: Il y a effectivement toujours un élément appréciation politique, avec un petit «p», et il faut en tenir compte. Il est intéressant de remarquer, par exemple, que les investisseurs japonais ont recommencé à s'intéresser au Canada le jour où ils ont décidé qu'il était préférable pour eux de ne pas détenir tous leurs actifs en dollars américains, et donc de diversifier leurs risques en investissant dans d'autres pays, et dans d'autres monnaies.

La bonne gestion est effectivement quelque chose d'important, mais c'est un élément qui fait l'objet d'une appréciation comparative, en fonction des autres choix d'investissements qui s'offrent à vous.

M. Minaker: Ce n'est pas ce dont je veux parler. Vous parlez de gestion, de réduction du déficit, et cetera. Je veux parler d'une situation dans laquelle la moitié ou un quart du pays donnerait l'impression de vouloir faire sécession. J'imagine que cela influencerait le choix des investisseurs étrangers, n'est-ce pas?

Mme Maxwell: Oui, je crois qu'ils en tiendraient compte. Mais, encore, les investisseurs prennent en considération toute une liste d'éléments très complexes à partir desquels ils décident de la composition de leurs portefeuilles.

Mme Nicholson: À la page 2 de votre document, vous parlez d'une demande d'investissement accrue de la part des institutions financières désireuses de se protéger des aléas du marché.

[Texte]

How do you see this playing with the contradictory messages the government has been giving in relation to financial institutions?

On the one hand we have the Superintendent of Financial Institutions encouraging banks to make better provision for loan losses. I think he has taken this kind of view in his speeches, as has the Governor of the Bank of Canada in speeches about Third World debt. Yet in the white paper on taxation we see a proposal to require banks to maintain their reserves out of after-tax dollars and we see a pressure on them to take reserves into income. So it seems as though the people in the tax policy branch of the Department of Finance have one approach, which is related to getting as much revenue as possible, the people in the Superintendent of Financial Institutions office have a different approach, which has more concern with solvency.

Ms Maxwell: The effect we are describing here is that certainly institutions will be looking for a more robust capital base, for a greater ability to withstand shocks in terms of possible corrections in capital markets.

The most obvious example of this sort of thing would be what you have seen taking place—investment dealers have been undergoing mergers, partly of course because they have suddenly been permitted to do that, but also because they very much needed to expand their capital base. That is the kind of choice we were thinking of in giving that illustration of how the changed perception of risk in the marketplace will probably affect decision-making by managers of financial institutions.

I am afraid I do not know enough about the taxation of financial institutions to be able to follow through on the comment you have made about raising more revenue from the banking system.

Miss Nicholson: Thank you.

The Vice-Chairman: Excuse me if I may, Miss Nicholson. In the conversation I was reminded that in the list of factors that tend to have the major impact on the exchange rate of our dollar, I noticed that something which in my mind had always been a major factor was missing, interest rates. They can almost be manipulated by monetary policy, by government and—this is a question my colleague, Mr. Minaker, raised earlier—whether the exchange rate would also reflect those decisions. You mentioned that you do not see much difference in inflation rates or some of the other factors between ourselves and the United States. Do you see a possibility of distortion coming out of political intent on interest rates?

• 1640

Ms Maxwell: I neglected to discuss interest rate spreads and you are quite correct to raise it as an issue. I think a

[Traduction]

Étant donné par ailleurs les injonctions contradictoires du gouvernement aux institutions financières, comment cela se passera-t-il?

Nous avons vu d'un côté le surintendant responsable des institutions financières encourager les banques à augmenter les provisions qu'elles font pour les prêts non remboursés. C'est ce qu'il a dit dans ses discours, de même d'ailleurs que le gouverneur de la Banque du Canada, dans des discours qui concernaient la dette des pays du Tiers monde. Pourtant, dans le Livre blanc concernant la taxation, il serait prévu de demander aux banques de se constituer des réserves à partir des bénéfices nets, et il semble que l'on fasse pression sur elles pour qu'elles amalgament réserves et revenus. Les responsables de l'impôt, au ministère des Finances, ont une façon de procéder qui consiste à présenter les choses de telle façon que le revenu soit le plus important possible. Au bureau du surintendant des institutions financières, les choses sont complètement différentes, c'est surtout l'argument de la solvabilité qui leur importe.

Mme Maxwell: Ce dont nous parlons ici, c'est de la tendance des institutions à accroître leur base en capital, afin de mieux résister aux chocs et, éventuellement, intervenir sur les marchés des capitaux.

C'est exactement ce qui s'est passé chez les négociants en valeurs lorsqu'ils ont procédé à des fusions, sans doute en partie parce que cela leur était soudainement permis, mais également parce qu'ils avaient besoin de consolider leurs portefeuilles d'actions. Les risques du marché sont perçus de façon différente maintenant, et nous pensons que cela aura des répercussions sur les décisions des responsables des institutions financières, voilà pourquoi nous vous avons cité cet exemple.

Je ne connais pas suffisamment la question de l'imposition des institutions financières pour répondre plus en détail à votre question portant sur l'accroissement de la recette fiscale provenant du système bancaire.

Mme Nicholson: Merci.

Le vice-président: Excusez-moi, s'il vous plaît, madame Nicholson. Dans tout cet échange portant sur les facteurs déterminants de la parité de notre dollar, j'ai remarqué que l'on avait oublié un élément important, à savoir les taux d'intérêt. Or, comme vous le savez, ceux-ci peuvent être littéralement manipulés par les politiques monétaires, c'est-à-dire par les décisions des gouvernements et... c'est une question que mon collègue, M. Minaker, a posée tout à l'heure... j'aimerais savoir quelles en seraient les conséquences pour notre taux de change. D'après vous, les autres facteurs, comme le taux d'inflation, par exemple, devraient rester à peu près constants, si l'on fait une comparaison entre le Canada et les États-Unis. Pensez-vous qu'une quelconque distorsion puisse venir de ces décisions politiques concernant les taux d'intérêt?

Mme Maxwell: J'ai effectivement oublié de vous parler du différentiel des taux d'intérêt, et vous avez tout à fait

[Text]

divergence in monetary policy between Canada and the United States, because one country, for example, was more concerned about inflation or had a different policy objective from the other, would tend to have a bearing on the value of the exchange rate. In a sense it is more of a short-term transitional effect, but the other factors I was talking about are the underlying economic forces, the relative rates of inflation, the productivity growth and the balance of capital flows. However, it certainly has an important bearing.

Mr. Cassidy: I would like to ask you about the questions we had when Governor Crow was here last week.

The Vice-Chairman: May I interrupt you? I had assured my colleague that he would have a first-round turn and I did not give it to him. Would you excuse me if I went back to him?

Mr. Cassidy: Yes, of course.

The Vice-Chairman: Thank you. Mr. Minaker.

Mr. Minaker: Under your policy any political capital gains would be fully taxable. I wonder if I could get some clarification on the charts and tables attached to the opening remarks. On the selected economic indicators, the 1980 update, is anything taken into account about the sales tax in the tax reform?

Ms Maxwell: No. We have included phase one of tax reform in these projections, but not phase two.

Mr. Minaker: The consumer price index would not have any impact on what might happen there.

Ms Maxwell: No.

Mr. Minaker: For clarification on the government's federal surplus or deficit, is this a proportion of the gross domestic product?

Ms Maxwell: Yes.

Mr. Minaker: Will the deficit go down by these percentage points? I am trying to get a definition of the negative value.

Ms Maxwell: No, it is the total value of the deficit as a percentage of gross domestic products. We are saying that in 1988 the federal deficit will be approximately 3.9% of GDP. The negative is to indicate that it is a deficit rather than a surplus.

Mr. Minaker: It will go up by one tenth of a percent in your projections.

Ms Maxwell: Yes.

Mr. Minaker: You show employment and participation going up and considered the differences that will occur there. The participation rate is increasing as our

[Translation]

raison de poser la question. Lorsque les États-Unis et le Canada ont des politiques monétaires différentes, du fait que l'un des pays, par exemple, met la lutte contre l'inflation au premier rang de ses préoccupations, ou que ses objectifs politiques diffèrent de ceux de l'autre, les taux de change s'en ressentent. Mais les effets sont assez transitoires et de court terme, alors que les autres facteurs dont je parlais concernaient plus les forces économiques sous-jacentes, telles que les taux d'inflation relatifs, les gains de productivité, l'équilibre des mouvements de capitaux. Mais il est vrai que c'est un facteur non négligeable.

M. Cassidy: J'aimerais reprendre certaines des questions que nous avons posées lorsque le gouverneur Crow a comparu, la semaine dernière.

Le vice-président: Puis-je vous interrompre? J'avais promis à mon collègue de lui donner la parole au premier tour, et je ne l'ai toujours pas fait. Accepteriez-vous que je lui donne la parole?

M. Cassidy: Oui, bien sûr.

Le vice-président: Merci. Monsieur Minaker.

M. Minaker: D'après vos scénarios, les gains en capital d'origine politique seraient imposés à 100 p. 100. J'aimerais avoir quelques explications supplémentaires concernant les tableaux que vous avez joints à votre exposé. Au tableau des indicateurs économiques choisis, mis à jour en 1980, est-il tenu compte de la réforme fiscale, et notamment de la taxe de vente?

Mme Maxwell: Non. Nous avons intégré la phase un de la réforme fiscale à nos projections, mais pas la phase deux.

M. Minaker: Le tableau ne tient donc pas compte de l'indice des prix à la consommation.

Mme Maxwell: Non.

M. Minaker: J'aimerais aussi avoir quelques explications sur ces chiffres concernant le déficit ou l'excédent des finances fédéral; est-ce un pourcentage du produit intérieur brut?

Mme Maxwell: Oui.

M. Minaker: Cela veut-il dire que le déficit va régresser? J'essaie de comprendre cette valeur négative.

Mme Maxwell: Non, il s'agit de la valeur totale du déficit en pourcentage du produit intérieur brut. En 1988, ce déficit du trésor fédéral sera environ de 3.9 p. 100 du PIB. Le signe moins indique qu'il s'agit d'un déficit et non d'un excédent.

M. Minaker: Il va donc augmenter d'un dixième de point de pourcentage, d'après vos projections.

Mme Maxwell: Oui.

M. Minaker: L'emploi progresse, le taux d'activité également, et vous suivez ensuite l'évolution. Le taux d'activité progresse alors que le taux de chômage

[Texte]

unemployment level increases in 1990 from 1989. How do you account for that?

Ms Maxwell: We have observed it as the behavior of the labour force over recent years. The only time in recent years when we have actually had a drop in the participation rate, if I remember correctly, was in 1982. You will remember what kind of shock there was in terms of unemployment rates in 1982. It takes quite a severe shock to encourage people to withdraw from the labour force once they are in it. When growth slows down you see a slower rate of increase in the participation rate, but it is a very significant increase from 1987 to 1988, almost a full percentage point.

Mr. Minaker: Perhaps it is because your upper-end age is between the classification of 15 years and. . .

• 1645

Ms Maxwell: Yes.

Mr. Minaker: Maybe there is a shrinkage in the population at that point, and that is why there is a greater participation in there. Do you see what I am saying?

Ms Maxwell: Yes.

Mr. Minaker: The unemployment increases though.

Ms Maxwell: Yes.

Mr. Minaker: Okay. The question I would like to raise is on another subject, regarding the study that you indicated is going on—we talked about it last time you were here—looking at the future of prairie grain economy. Is the council now going to update all that information with the impact of free trade? I understand our markets will be either assured or even maybe expanded in the red beef industry, as well as the seed oil industry which with what is being proposed, I think, has great potential now. I do not pretend to be a farmer, but I understand that canola seed oils are much more productive in terms of oil per bushel, or whatever, than soybean. Will the council look at all these particular items?

Ms Maxwell: Yes, we will. Although I should say that a very substantial portion of the research is focused on the grain economy—the more traditional grains, because that is still the biggest portion of production, we are looking at diversification and at oilseeds, but in lesser detail.

I must say that the big emphasis in the project has been to look at offshore markets, because we see the biggest potential growth in developing countries and newly industrialized countries, but we are looking at all possible markets. So, there will be some assessment of the potential impact of the free trade agreement.

[Traduction]

augmente également entre 1989 et 1990. Comment expliquez-vous cela?

Mme Maxwell: C'est un phénomène que nous avons observé au cours des études de la population active que nous avons faites ces dernières années. La seule fois, au cours de ces années, où le taux d'activité a régressé, si je m'en souviens bien, c'est en 1982. Vous vous souviendrez de la situation catastrophique du chômage cette année-là. Et il faut effectivement qu'elle ait été catastrophique, pour qu'on ait encouragé certaines personnes à se retirer de la population active, alors qu'elles en faisaient partie. Lorsque la croissance ralentit, le taux d'activité augmente également moins vite, mais l'on constate une progression importante entre 1987 et 1988, puisqu'elle est de près d'un point de pourcentage.

M. Minaker: Cela vient peut-être du fait que vous calculez à partir de 15 ans jusqu'à. . .

Mme Maxwell: Oui.

M. Minaker: Cela correspond peut-être à un recul démographique, ce qui expliquerait un meilleur taux d'activité. Vous comprenez ce que je veux dire?

Mme Maxwell: Oui.

M. Minaker: Mais le chômage augmente également.

Mme Maxwell: Oui.

M. Minaker: Très bien. Je voudrais maintenant passer à un autre domaine, à savoir celui de l'avenir de l'économie céréalière de nos Prairies, puisque vous nous avez parlé de cette nouvelle étude en cours—nous en avons parlé la dernière fois que vous étiez ici. Le Conseil va-t-il tenir compte des répercussions probables du libre-échange? D'après ce qu'on nous dit, nos débouchés sont assurés, le marché va même peut-être prendre de l'expansion dans le domaine de la viande rouge, et le secteur des oléagineux devrait lui aussi en profiter largement. Je ne prétends pas être spécialiste des questions agricoles, mais je crois savoir que les graines de canola sont beaucoup plus riches en huile, si l'on fait le calcul par boisseau, par exemple, que le soja. Le Conseil va-t-il tenir compte de tout cela?

Mme Maxwell: Oui. Bien que ce soit surtout la question des grains et céréales qui nous intéresse dans notre recherche, c'est-à-dire les céréales plus traditionnelles, qui représentent la plus grande partie de notre production, nous nous intéressons également à la diversification possible, et nous tenons compte des oléagineux, sans pousser la recherche aussi loin.

Je dois dire que nous nous intéressons surtout aux marchés extérieurs au continent nord-américain. . . pays en voie de développement, pays nouvellement industrialisés. . . parce que c'est là, à notre avis, que nos débouchés connaîtront la croissance la plus importante. Mais nous n'excluons pas les autres marchés éventuels, et nous allons effectivement tenir compte de ce nouvel élément qu'est l'accord de libre-échange.

[Text]

Mr. Minaker: I am going to be sort of politically facetious here. Whereabouts will you be getting that information? I know when I raised the question the last time you were here, that the province I come from, the province of Manitoba, had not made any financial contribution towards this study, but you said they may be providing you with information. As you may be aware they are very strongly opposed to any free trade agreement, so I would hope that your sources of free trade information might not be solely received from the NDP Government of Manitoba. It may be biased to some degree.

Ms Maxwell: I can assure you that our sources are quite diversified and that our work will include the best professional judgments about future demand for Canadian products and also the best options in terms of how we should use our production base.

Mr. Minaker: Very good. Thank you.

The Vice-Chairman: If I could intervene, just for a minute. I noticed that in the employment participation rate question, and the comments that evoked, these two years we are going into represent significant differences when you accumulate those two. With the participation rate increasing so dramatically between 1987 and 1989, 1.4% total, and the unemployment rate forecast to drop by what it does, the accumulative total represents more than 2.3%, whereas other years, if you follow that on, are pretty stable. So, this must be a period in which relatively substantial economic positive change is occurring. I do not see how those two statistics marry up with the kind of reduced or modest forecasts that we are hearing.

Ms Maxwell: Well, first of all let me just underline here that these are very summary statistics. I think what is perhaps the best news of all, lying behind the decline in unemployment rates we have seen in the last six or eight months, is that there has been very strong employment growth in the Atlantic and in British Columbia. In fact, the west and the east have begun to join in this expansion at a very late stage.

What Ross Preston was explaining earlier is that we have had a tremendous surge of employment growth in recent months, which is carrying over into the early months of 1988. The natural response is for the labour force to grow. People notice that jobs are available and therefore make themselves available for work, having probably been discouraged earlier on by the lack of availability of jobs. We do anticipate that there will be a very strong response on the participation rate side.

[Translation]

M. Minaker: Si vous voulez bien, je vais me faire un petit peu politique, maintenant. Où allez-vous obtenir cette information? La dernière fois que vous étiez ici, lorsque j'ai expliqué que la province du Manitoba, dont je viens, n'avait pas contribué au budget de l'étude, vous m'avez répondu qu'elle vous fournirait peut-être l'information dont vous pourriez avoir besoin. Comme vous le savez, cette province est fermement opposée à l'accord de libre-échange, et j'espérerais que le gouvernement NPD du Manitoba ne sera pas votre seule source d'information dans ce domaine. Elle risquerait de ne pas être absolument objective.

Mme Maxwell: Je peux vous assurer que nos sources d'information sont très diverses, et que nous faisons appel aux meilleurs spécialistes pour évaluer l'avenir des débouchés des produits canadiens et pour faire des propositions en ce qui concerne la meilleure utilisation possible de nos facteurs de production.

M. Minaker: Très bien. Merci.

Le vice-président: Si vous permettez, je vais me donner une minute de temps de parole. Vous avez parlé tout à l'heure du taux d'activité, et lorsque je fais le total de nos deux années actuelles, je vois que cela représente une évolution radicale de la situation. Le taux d'activité augmente de façon considérable entre 1987 et 1989, à savoir de 1.4 p. 100 au total, alors que, pendant les deux mêmes années, le taux de chômage devrait chuter de plus de 2.3 p. 100; pour les années suivantes, la courbe reste assez stable. Cela indiquerait que nous nous trouvons dans une période d'évolution économique extrêmement positive. Voilà donc des statistiques qui contredisent complètement ceux qui ont tendance à sous-estimer ce qui se passe en ce moment.

Mme Maxwell: Permettez-moi tout d'abord de dire qu'il s'agit ici de résumés statistiques. En même temps que cette régression du taux de chômage à laquelle nous avons assisté depuis six ou huit mois, ce qu'il y a de plus encourageant, c'est que l'emploi a connu une croissance très soutenue dans les provinces Maritimes et en Colombie-Britannique. On peut donc dire que l'ouest et l'est du pays commencent, un peu tard, à profiter du mouvement d'expansion.

Comme Ross Preston l'a expliqué tout à l'heure, la progression impressionnante de l'emploi au cours des derniers mois s'est poursuivie pendant les premiers mois de l'année 1988. À ce phénomène, répond un phénomène d'expansion de la population active. Les gens s'aperçoivent qu'il y a du travail, ils se mettent eux-mêmes à la recherche d'un emploi, alors que, par le passé, ils avaient été découragés et ne faisaient même plus partie des demandeurs d'emploi. Nous prévoyons effectivement que le taux d'activité accusera une hausse très vigoureuse.

• 1650

If we could put in another ratio there, which is the ratio of total employment to total population, the good news out of these numbers is we are getting a substantial

Si l'on y ajoute le rapport entre le nombre total d'emplois et le chiffre total de la population, la conclusion heureuse qui se dégage de ces chiffres c'est que

[Texte]

increase in the total proportion of the population that is employed.

The Vice-Chairman: I believe Miss Nicholson also wanted a supplementary.

Miss Nicholson: Just two supplementaries. One follows on the question of the growth you mentioned in the increase in employment, Mrs. Maxwell. Do you also have figures about the quality of these jobs—the pay scale, whether part time or full time? Also, is the big increase in unskilled jobs or other kinds of jobs?

Ms Maxwell: I would like to ask my colleague, Mr. Lazar, to describe some research we are just starting in that area.

Mr. Harvey Lazar (Director, Economic Council of Canada): The question you raise is a matter we will be looking at in very considerable detail over the coming year. Mrs. Maxwell referred earlier to one of the subjects listed in the documents we left with you on employment and the service sector. That particular piece of work is going to cover a number of dimensions, but one of them is going to focus very heavily on the quality of jobs within the service sector—looking at incomes, stability, the amount of education required, and a series of questions that I think follow very much from the kind of concern you have. I cannot predict now what the outcome of that work will be, but it is going to be a very heavy focus in the project that has just been launched over the last couple of months.

Miss Nicholson: The other question I have is on this chart—your projected growth in GDP of 2.5% in 1988 as opposed to 3.7% in 1987, a further drop to 1.8% in 1989, and so on, and then not climbing again until 2.3% in 1991. At the same time as the first two of these years of lower growth, you are also projecting higher inflation, it would appear; at least the CPI is higher. Could you possibly explain that or some of the factors in that?

Mr. Preston: What usually happens, Mr. Chairman, at the later stages of a business cycle is you move towards higher levels of capacity utilization; you begin to use facilities that are less efficient in production. Also, there is usually a change in the mix of output that occurs. Usually the very high productivity sectors, such as autos, begin to rail off. What you are left with is the lower productivity sectors, such as services. Therefore what you are seeing here are pressures that evolve partly from the cost structure of production in terms of the inflation rate. This is a natural consequence of what happens as you move to the end of a long period of expansion.

The other point is we are seeing a certain small shift in our terms of trade during this period that is leading to some changes in prices within the domestic system. We are also seeing a small resurgence in what you might call

[Traduction]

la proportion de la population qui occupe un emploi a augmenté considérablement.

Le vice-président: Je pense que M^{lle} Nicholson voulait aussi poser une question supplémentaire.

Mme Nicholson: Deux supplémentaires. La première fait suite à la question sur la croissance dont vous avez parlé au sujet de l'augmentation des emplois, madame Maxwell. Avez-vous des chiffres sur la qualité de ces emplois: l'échelle de salaires, s'agit-il d'emplois à temps plein ou à temps partiel? Aussi, cette forte augmentation est-elle survenue dans le nombre d'emplois non spécialisés ou d'autres sortes d'emplois?

Mme Maxwell: Je vais demander à mon collègue, M. Lazar, de décrire les travaux de recherche que nous venons d'entreprendre dans ce domaine.

M. Harvey Lazar (directeur, Conseil économique du Canada): La question que vous soulevez sera examinée dans le détail dans l'année qui vient. M^{me} Maxwell a fait allusion tout à l'heure à l'un des domaines de recherche énumérés dans les documents que nous vous avons remis sur l'emploi et le secteur tertiaire. Cette étude va porter sur un certain nombre de facettes, mais dans un cas nous allons concentrer notre attention sur la qualité des emplois du secteur tertiaire: le revenu, la stabilité, la scolarité nécessaire et toute une série de questions qui vont tout à fait dans le sens de vos préoccupations. Je ne peux pas prédire ce que sera l'issue de ces travaux, mais ils occuperont une place très importante dans le projet qui vient d'être lancé ces derniers mois.

Mme Nicholson: L'autre question porte sur ce tableau. Vous projetez une croissance de 2,5 p. 100 du PIB en 1988 par rapport à 3,7 p. 100 en 1987, un fléchissement supplémentaire à 1,8 p. 100 en 1989, et ainsi de suite, puis une remontée jusqu'à 2,3 p. 100 en 1991. Au cours de la première de ces deux années de croissance ralentie, vous projetez aussi une inflation plus forte, semble-t-il; en tout cas, l'IPC est plus élevé. Pouvez-vous m'expliquer à quoi cela tient ou nous décrire les facteurs qui entrent en jeu?

M. Preston: D'ordinaire, monsieur le président, à la fin d'un cycle économique on constate généralement une utilisation plus soutenue des capacités de production; on commence à se servir d'installations qui sont moins efficaces. On constate aussi normalement que la production change de composition. Les secteurs à très forte productivité, comme l'industrie automobile, commencent à s'essouffler. Ce qui reste, ce sont les secteurs à productivité plus faible, comme le secteur tertiaire. Ce que l'on observe donc ici, ce sont les effets de la structure de coûts de la production exprimés en taux d'inflation. C'est la conséquence naturelle de ce qui se produit lorsque l'on arrive à la fin d'une longue période d'expansion.

On observe aussi un léger changement de nos échanges commerciaux pendant cette période, ce qui amène une fluctuation des prix sur le marché intérieur. On constate aussi une petite remontée dans l'abaissement général des

[Text]

the fall-off in energy prices. So what you have is a number that was normally steady or falling turning into a number that is slightly rising, and that in a sense gives what you might call a statistical illusion of inflation.

All of these pressures are building at the end of the period to essentially produce an inflation rate that is a little higher than what we have seen in the past two years.

Mr. Cassidy: Mr. Chairman, I have a couple of general comments I want to make. One is that I look forward with some interest to your report and visions of the year 2000. I have been thinking about some of the process myself, and of course in planning you try to work out where we are now, where we are going, and how to get there.

• 1655

Secondly, I had the opportunity to meet with one of your staff, I think Mr. Pullen, who was doing some rather interesting outreach on behalf of the council in the area of strategic planning, for which I congratulate you.

I wanted to first turn to the revamped estimates of economic indicators which you have prepared, because I have noticed here, as we will look at this in more detail, that your estimates of the federal government deficit as a percentage of GDP, in the years beyond 1988, are sharply at variance with the ones you anticipated in your annual report in the fall. If you translate that into numbers, and if you assume that federal deficit on a national accounts basis is somewhat similar to financial requirements—

Ms Maxwell: Yes it is.

Mr. Cassidy: —what I get, looking at the figures that appeared in the government's fiscal paper which I think appeared in December, the *Economic and Fiscal Outlook* and which Mr. Waslander has thoughtfully provided for us, is that the financial requirements that were trending downward towards the 1990s will in fact start to trend upward. In 1989 they look to be about \$26 billion as opposed to about a \$21 billion forecast, and in calendar 1990 something like \$30 billion as opposed to about an \$18 billion forecast.

Those are very much back-of-an-envelope calculations, but there is a sharp divergence in terms of the council's own projections based on your models about the deficit in national accounts terms. What is going on, and can you explain that? I ask this because I think that is a serious element, particularly if it is an uncontrolled deficit as opposed to one which is deliberately entered into for reasons of fiscal stimulation.

Mr. Preston: The deficit calculations that fall out of our analysis come out from deeply within the calculation. They are not something that we set initially when we do the analysis. They fall out of the analysis.

If you take a look at the average growth rate over 1987 to 1992 that was published in the review, you will see in

[Translation]

prix de l'énergie. Imaginez une tendance stationnaire ou à la baisse qui remonte légèrement et cela provoque ce que l'on pourrait appeler une illusion statistique d'inflation.

Ces effets se conjuguent à la fin de la période et produisent un taux d'inflation légèrement supérieur à ce que nous avons connu ces deux dernières années.

M. Cassidy: Monsieur le président, j'aimerais faire quelques observations d'ordre général. D'abord, j'ai hâte de lire votre rapport et vos prédictions pour l'an 2000. Moi-même je me suis penché sur la question et j'ai essayé de faire le point sur la situation actuelle et la direction vers laquelle elle évolue et sur les moyens d'aboutir là où nous voulons en arriver.

En deuxième lieu, j'ai rencontré l'un de vos employés, M. Pullen, je crois, qui cherchait à obtenir des renseignements pour le compte du Conseil sur des questions de planification stratégique, ce pourquoi je le félicite.

Je voudrais d'abord parler des estimations révisées des indicateurs économiques que vous avez préparées. Je constate que votre estimation du déficit du gouvernement fédéral exprimée en pourcentage du PIB, pour les années ultérieures à 1988, est très différente de celle qui figure dans votre rapport annuel de l'automne. Exprimée en chiffres, et en admettant que le déficit fédéral sous forme de comptes nationaux s'apparente aux besoins financiers. . .

Mme Maxwell: C'est le cas.

M. Cassidy: . . . je conclus, si je regarde les chiffres parus dans le document fiscal du gouvernement qui, je pense, a paru en décembre, *Perspectives économiques et fiscales*, que M. Waslander a eu la gentillesse de nous fournir, que les besoins financiers qui marquaient une tendance à la baisse jusqu'à la fin des années 1990 vont en fait commencer à accuser une hausse. En 1989, cela semblait être environ 26 milliards de dollars par opposition à la prévision de 21 milliards de dollars, tandis que pour l'année civile 1990 on parle d'environ 30 milliards de dollars par rapport aux 18 milliards prévus.

Ce sont évidemment là des calculs très approximatifs, mais cela est très loin des prédictions du Conseil fondées sur les modèles que vous avez du déficit exprimé sous la forme des comptes nationaux. Que se passe-t-il, et pouvez-vous l'expliquer? Si je pose la question, c'est que cela me semble être un élément important, en particulier s'il s'agit d'un déficit débridé par rapport à un déficit créé pour stimuler l'économie.

M. Preston: Les calculs du déficit issus de notre analyse se dégagent de l'ensemble de nos calculs. Ce n'est pas le résultat de l'objectif premier de l'analyse. Ils n'en sont qu'une conséquence.

Si vous prenez le taux de croissance moyen de 1987 à 1992, publié dans le rapport, vous verrez qu'en termes

[Texte]

real terms it was 2.8%. If you take a look at the average growth rate in the revised projection, it is 2.4%. We are talking about a five-year period, or a four-year period. That four-tenths of a percentage point over that period of time also has an impact on the tax base.

In other words, you are talking about one-and-a-half points in real terms missing from the tax base over this period. So part of the growth in the deficit that we anticipate as a result of the re-evaluation comes from a weaker economic outlook in real terms. That, in part, comes not only from our reassessment of the crash now, but it come from a reassessment of the effect on the U.S. and our reassessment of the global environment.

So the deficit calculation we show there should more be viewed as an indication of how sensitive the deficit is to the environment we anticipate we are going to face, and not so much an indication of will financial requirements have to be 10, 15 or 20, be it more, five or ten years out, because things will intervene in the projection period that may make this worse or may make it better. So to a certain extent, the softness of the deficit, or the increase in the deficit numbers, are directly consistent with the weakening of the economic outlook.

There is also another point, and that is tax bases on the indirect side, and that is sales taxes, depend not only on the real base but upon inflation rates. And when you get a winding down of inflation you get essentially less bang for your buck out of the indirect taxes that emanate from the base of spending in nominal terms. What we are seeing here also is a wind-down in inflation.

Mr. Cassidy: If I can ask one other question related to this. This is one of those dirty little questions which has not been asked yet in the House, and we have not had a chance to ask it in this committee either.

• 1700

The trade deal presupposes the elimination of \$2 billion on an annual basis in tariffs on goods from the United States entering Canada. I think about two-thirds of that will be off in year five; that is, there is a front-end loading of the tariff cuts because certain goods go to zero immediately and others are phased over five rather than ten years.

Have you done any estimates of the impact on revenues and of the economic impact of increased taxes in order to make up for that loss of revenues due to the loss of tariffs on U.S. goods entering Canada if the trade deal goes through?

Ms Maxwell: Let me just explain; Ross may wish to comment on this as well. In the simulations the council did of a hypothetical trade agreement, we did it on a locally neutral basis; that is, all the lost tariff revenue was placed by slight modifications in the personal income

[Traduction]

réels il s'agit d'un taux de 2,8 p. 100. Le taux de croissance moyen des prédictions révisées est de 2,4 p. 100. Il s'agit d'une période de cinq ans ou de quatre ans. Ces quatre dixièmes de 1 p. 100 sur cette période ont aussi un effet sur l'assiette fiscale.

Autrement dit, il s'agit d'une compression de l'assiette fiscale d'un point et demi en termes réels pendant cette période. Une partie de la croissance du déficit que nous prévoyons maintenant est attribuable à une perspective économique plus sombre en termes réels. Cela provient non seulement de notre réévaluation du krach mais aussi de la réévaluation de l'effet sur les États-Unis et de notre réévaluation de notre environnement mondial.

Le déficit qui figure ici devrait donc être perçu davantage comme une indication de la sensibilité du déficit à l'environnement auquel nous prévoyons d'être confrontés, et moins un signe de ce que seront les besoins financiers dans 10, 15 ou 20 ans parce que des événements surviendront pendant la période projetée qui pourront avoir un effet positif ou négatif. Dans une certaine mesure, donc, l'alourdissement du déficit est directement tributaire de l'affaiblissement de l'économie.

En outre, l'assiette fiscale indirecte, la taxe de vente, dépend non seulement de l'assiette réelle mais aussi du taux d'inflation. Lorsque l'inflation baisse, les taxes indirectes prélevées sur les achats rapportent moins en réalité. Ce que l'on voit ici, c'est un ralentissement de l'inflation.

M. Cassidy: J'aimerais poser une autre question dans la même veine. C'est une de ces petites questions embêtantes qui n'a pas encore été posée à la Chambre, pas plus qu'ici.

L'entente de libre-échange suppose l'élimination de 2 milliards de dollars en droits douaniers annuels sur les produits américains qui entrent au Canada. Je pense qu'à peu près les deux tiers de cette somme auront été éliminés dans la cinquième année. C'est donc dire que la plus grande partie des droits sera supprimée au début parce que certains produits seront exemptés en entier de droits de douane dès le début tandis que pour d'autres la suppression s'étalera sur cinq ans plutôt que dix ans.

Avez-vous fait des estimations des conséquences sur les recettes fiscales et des conséquences économiques de l'augmentation des impôts qui seront nécessaires pour compenser cette perte de revenu attribuable à la disparition des droits de douane sur les produits américains qui entrent au Canada si l'entente de libre-échange est mise en oeuvre?

Mme Maxwell: Laissez-moi vous expliquer. Ross voudra peut-être lui aussi intervenir. Nos simulations d'une éventuelle entente de libre-échange ont été faites de manière à n'avoir aucun effet sur les recettes fiscales. Cela signifie que tous les droits douaniers non perçus ont été

[Text]

tax. It was a very widely diffused replacement of the revenue. All the impacts that were shown by the council's original work were driven by the pure trade effect.

Mr. Cassidy: You did assume there would be increases in income taxes to offset the loss of tariff revenues.

I would like to go to a wider question now, which is provoked in part by some comments you make in *Reaching Outward*. I realize in looking through it that perhaps we should spend more attention, particularly since you have now obligingly begun to slim the document down from the size of previous years.

You comment in the conclusion about the problem of the U.S. interpretation of subsidies, particularly in the omnibus trade bill, and state that the interpretation is so broad and sweeping that it could encompass virtually any government program and therefore be used as a basis for countervailing action against an almost unlimited number of imports. You say that this plus something in the Senate bill could be used as a direct threat to Canada's well-being and to its capacity as a sovereign nation to implement its own industrial and social policies.

Earlier on in your discussion of Canada-United States relations, you speak directly of this question of regional and industrial initiatives and point out that there were very real problems because the Americans are more subtle and more decentralized in their stimulation to industry than we have tended to be. We tend to be more open and honest about them and with good reason; we have no apologies for them.

You point out there too that a number of these programs have in fact been already subjected to countervail by the United States. Although you do not say it, it is certainly implicit that because we are so much more trade-dependent on exports to them than they are to us, even if a subsidy by a province or by the federal government to an industry in Canada is treated for trade purposes the same way as it is treated to a similar firm in similar circumstances in the United States, the firm in the United States can quite easily laugh it off because it is only interfering with 5% or 8% of its sales, whereas for the firm in Canada it may be interfering with 30% or 40% of its sales. Therefore it is a relatively insignificant factor for the American firm, even if Canada was tough with the countervail and it is a very major interference with our ability to handle things.

What do most industrial nations do in terms of having the freedom to apply different types of incentive and industrial support programs as part of their industrial strategies? Am I right in understanding that every country, including the United States, has different kinds of industrial policies? With the exception perhaps of

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remplacés par de légères transformations de l'impôt sur le revenu personnel. C'était une façon de répartir très largement l'origine des recettes. Toutes les conséquences relevées dans les premiers travaux du Conseil provenaient exclusivement des résultats des échanges commerciaux.

M. Cassidy: Vous avez donc effectivement posé en hypothèse qu'il y aurait augmentation de l'impôt sur le revenu pour compenser la perte des droits de douane.

Je voudrais maintenant passer à une question plus vaste, inspirée en partie par des passages tirés du document *Un pari stratégique*. Je constate qu'on devrait peut-être accorder une plus grande attention à ce document, surtout que vous avez eu l'obligeance de l'amincir considérablement par rapport aux éditions précédentes.

Dans la conclusion, vous parlez de la difficulté posée par l'interprétation que les États-Unis donnent aux subventions, en particulier dans la loi omnibus sur le commerce, et vous affirmez que l'interprétation est si vaste qu'elle englobe à peu près tous les programmes du gouvernement et peut donc servir de justification à des mesures de rétorsion s'appliquant à un nombre presque illimité d'importations. Vous dites que cette disposition ajoutée à une autre d'une loi du Sénat pourrait être invoquée pour menacer directement le bien-être du Canada et compromettre son droit souverain de mettre en oeuvre ses propres politiques industrielles et sociales.

Lorsque vous parliez des relations canado-américaines tout à l'heure, vous avez évoqué directement la question des initiatives régionales et industrielles et avez signalé l'existence de difficultés très réelles dues au fait que les Américains sont beaucoup plus subtils et beaucoup plus décentralisés que nous ne le sommes dans leur façon de stimuler l'industrie. Nous avons tendance à en parler plus ouvertement et plus honnêtement et cela se justifie tout à fait: nous n'avons pas à nous en excuser.

Vous dites aussi qu'un certain nombre de ces programmes ont été frappés de mesures de représailles américaines. Même si vous ne le dites pas explicitement, il est bien évident que parce que nous dépendons beaucoup plus qu'eux des exportations, même si une subvention par une province ou par le gouvernement fédéral versée à une industrie au Canada est traitée pour les fins du commerce de la même façon qu'est traitée une subvention semblable aux États-Unis ça ne fera pas un pli à l'entreprise américaine parce que ça ne vient troubler que 5 ou 8 p. 100 de ses ventes, tandis que l'entreprise canadienne verra 30 ou 40 p. 100 de ses ventes toucher. Cela joue donc peu dans le cas d'entreprises américaines même si le Canada prenait des mesures de rétorsion vigoureuses. C'est donc une ingérence majeure dans la conduite de nos affaires.

Comment la plupart des pays industriels exercent-ils leur liberté d'appliquer différents programmes de stimulation industrielle? Chaque pays, y compris les États-Unis, n'a-t-il pas ses propres politiques industrielles? À l'exception possible des pays entrepôts comme Singapour et Hong Kong, dont la politique industrielle est

[Texte]

entrepôt states like Singapore and Hong Kong, whose industrial policy is not to have an industrial policy but just to let the market rip, virtually every other industrial state has different types of industrial policies.

If I am right about that, then are we not running very grave risks because of the degree to which we have foresworn our ability in future to exercise industrial policies in Canada through the trade deal as we know it now, specifically to the degree to which the United States and its industries have demonstrated a willingness to interfere with Canada's sovereign ability to have its own industrial policies through the use of a countervail?

• 1705

I will stop the argument there and ask you for a response, but I think that is a very appropriate question. I am very worried about future governments, be they Conservative, Liberal or New Democrat, being able to take action. For example, will they be able to continue the regional agencies which you cite in the annual report—if that is the Conservative version of industrial policy—given the possibility of continued and systematic interference by the United States?

Ms Maxwell: The great threat, which we were trying to highlight there, was in the way the U.S. has been using its trade remedy laws to go well beyond the rules that are laid down in the GATT. In chapter 4 of the annual review, we go to some lengths to talk about industrial, regional, and social policy and what we see as being Canada's minimum rights in terms of our being internationally responsible. We point to the fact that the key decision rule, under accepted international rules, is that any subsidy or support to a particular firm or region should not be one that discriminates and therefore distorts either trade flows or investment flows.

So the degree to which you are using policies in order to redistribute income within the country, or redistribute growth within the country, should not be of concern to competitors outside the country.

We do not know what is going to end up being in that omnibus trade bill in Washington, but the bits and pieces that have been surfaced by various members of the House of Representatives and the Senate have been potentially extremely damaging not only to Canada's interests but also to people globally. Therefore, what the council was directing your attention to was the fact that there are established rules and obligations under the GATT which we feel give us scope for undertaking domestic policies that we think are appropriate.

I think we are putting a lot of emphasis in the work we are doing on the trade agreement, which is yet again another issue here, to look at actually the rule-making process and the impact of all of the different elements in that agreement on the security of our access to the U.S. market.

[Traduction]

précisément de ne pas en avoir mais de laisser libre cours aux forces du marché, presque tous les autres États industrialisés ont une politique industrielle.

Dans ce cas, ne courons-nous pas de graves risques en abandonnant notre droit d'adopter des politiques industrielles, surtout vu le fait que les États-Unis ont montré qu'ils étaient prêts à empiéter sur notre droit souverain de déterminer nos propres politiques industrielles en recourant aux mesures de rétorsion?

Je m'arrête là pour l'instant et je vous demande de répondre. Je pense que ma question est tout à fait pertinente. Je crains que les futurs gouvernements, qu'ils soient conservateurs, libéraux ou néo-démocrates, ne puissent intervenir. Par exemple, pourront-ils maintenir les organismes régionaux dont vous parlez dans votre rapport annuel—s'il s'agit de la version conservatrice de la politique industrielle—étant donné le fait que les États-Unis pourront continuer de faire de l'ingérence?

Mme Maxwell: La grande menace, que nous avons essayé d'illustrer ici, c'est la manière dont les États-Unis se sont servis de leurs lois commerciales pour aller bien plus loin que ce que n'autorise le GATT. Au chapitre 4 de notre rapport annuel, nous discutons abondamment de la politique industrielle, régionale et sociale, et de ce qui nous semble être les droits minimaux du Canada dans la communauté internationale. Nous soulignons le fait que la décision déterminante qui a été rendue aux termes du droit international, c'est que toute subvention ou soutien financier à une entreprise ou à une région en particulier ne doit pas avoir d'effet discriminatoire et, partant, distorsionner les mouvements commerciaux ou de placement.

La mesure dans laquelle on a recours à des politiques pour répartir le revenu dans un pays ou répartir la croissance dans un pays ne regarde donc pas les concurrents de l'étranger.

Nous ignorons ce qui finira par se retrouver dans cette Loi sur le commerce à Washington, mais les bribes qui nous sont venues de divers membres de la Chambre des représentants et du Sénat semblent être hautement préjudiciables non seulement pour le Canada mais aussi pour les autres pays. Le Conseil essayait donc d'attirer votre attention sur le fait qu'il existe des règles et des obligations en vertu du GATT qui, à notre avis, nous donnent la liberté de manoeuvre pour mettre en place les politiques intérieures que nous jugeons appropriées.

Dans les travaux que nous effectuons sur l'entente de libre-échange, qui est une autre question en soi, nous insistons beaucoup sur le processus de détermination des règles et sur l'effet de chacun des éléments de l'entente sur la sécurité d'accès au marché américain.

[Text]

Mr. Cassidy: In my view, this is clearly one of the central areas and one of the central problems in the trade agreement. It lies at the heart of a lot of the misgivings that my party has expressed over the trade agreement. In fact, in the conclusion you state that these provisions are a direct threat to our well-being and to our capacity as a nation to implement its own industrial and social policies.

Am I right in saying that almost every industrial country, with very rare exceptions, does have industrial policies in which it seeks to influence the levels, the location, and the types of industrial activity that take place within its borders?

Ms Maxwell: Yes, I think that is true. Within the European Common Market, or within the European Free Trade Association, you can see countries that take very different approaches to the questions of industrial and regional policy, and still apparently conform to the rules of the game within those trading blocks. They remain amicable trading partners. Their industrial and regional policy does not often become a bone of contention.

I would draw to your attention the Netherlands, which lives next door to West Germany. The Netherlands trades heavily with West Germany and with France, but I understand it takes quite a different approach not only to industrial policy but also to social policy.

• 1710

Mr. Cassidy: We are caught not in a relationship with 10 or 11 countries but in a two-party trade agreement, and it is a bit like my merging my country store with Sears. There is always a danger that the way Sears does things is going to be what prevails 90% or 99% of the time. What advice do you have to this committee, and through this committee to government, in terms of resolving that kind of question?

If the relative tolerance you say exists on different industrial and regional policies in the Common Market does not exist between Canada and the United States, and if instead, partly because of the decentralized power of initiation or the fact that industries can initiate the countervail and contingent protection moves in the States, what if we find that, systematically, the Americans are using their powers under their trade laws to interfere with the way we do things in Canada?

Ms Maxwell: Well, I think you and I are both on the same side here. We are against protectionism in the United States, and what we were trying in this particular paragraph was to draw Canadians' attention to the fact that there are still very serious protectionist risks, threats if you want, in the United States that will affect the Canadian interests.

[Translation]

M. Cassidy: D'après moi, il s'agit là d'un des éléments et des problèmes fondamentaux de l'entente de libre-échange. C'est à cela que tiennent beaucoup des réserves que nous avons exprimées au sujet de l'entente. En fait, dans la conclusion, vous affirmez que ces dispositions sont une menace directe pour notre bien-être et notre aptitude en tant que pays à mettre en oeuvre nos politiques industrielles et sociales.

Ai-je raison d'affirmer que presque tous les pays industrialisés, à quelques rares exceptions près, ont des politiques industrielles qui cherchent à influencer l'ampleur, l'emplacement et la nature de l'activité industrielle qui s'exerce à l'intérieur de leurs frontières?

Mme Maxwell: Oui, je pense que cela est vrai. Au sein du Marché commun européen ou de l'Association européenne de libre-échange, les pays membres abordent de façon très différente les questions de la politique industrielle et régionale, tout en se conformant, semble-t-il, aux règles qui président à leur association commerciale. Ce sont toujours des partenaires économiques entre qui la bonne entente règne. Il est rare que leurs politiques industrielles et régionales soient une pomme de discorde.

Je pense en particulier aux Pays-Bas, pays limitrophes de l'Allemagne de l'Ouest. Les Pays-Bas commercent beaucoup avec l'Allemagne de l'Ouest et la France, mais je crois savoir qu'ils adoptent une politique industrielle et sociale très différente.

M. Cassidy: Nous ne sommes pas liés à dix ou onze pays, mais à un seul autre, et c'est comme fusionner un magasin général et Sears. Il y a bien des chances que la façon dont Sears fait les choses va prévaloir 90 ou 99 p. 100 du temps. Quels conseils pouvez-vous donner au Comité et au gouvernement pour résoudre cette question?

Si la tolérance relative qui selon vous existe à propos des différentes politiques industrielles et régionales du Marché commun ne règne pas entre le Canada et les États-Unis et si à sa place, en partie à cause de la décentralisation du pouvoir de lancer des mesures de rétorsion ou du fait que les industries peuvent lancer ces mesures et parallèlement prendre des mesures de protection aux États-Unis, que se passera-t-il si, systématiquement, les Américains exercent les pouvoirs que leur confèrent leurs lois commerciales pour s'ingérer dans la conduite de nos affaires ici?

Mme Maxwell: Eh bien, je pense que nous sommes tous les deux du même avis. Nous sommes contre le protectionnisme aux États-Unis, et dans ce paragraphe, nous essayons d'attirer l'attention des Canadiens sur le fait qu'il existe toujours des menaces sérieuses de protectionnisme aux États-Unis qui toucheront les intérêts du Canada.

[Texte]

Clearly, what the two countries need is agreed rules of the game. That piece of legislation may or may not become law. If it does become law, these particular provisions may or may not be in there. It seems to me that if those kinds of provisions were in there, then we would see the United States being in contravention of the standstill agreement that is associated with the trade agreement. So I think there are very important repercussions that flow from this.

Mr. Cassidy: Well, let us assume the omnibus trade bill did not get adopted, or that it was so watered down it is not significant for this discussion. In softwood lumber and in fish, to take two recent examples, the Americans have used their trade law or their market power to reach into areas of Canadian programs and to either penalize them or to impose their own policies on Canada. Is it fair to say that, albeit to a lesser extent, even the existing American trade laws permit the Americans to threaten our capacity as a sovereign nation to implement our own industrial and social policies?

Ms Maxwell: Well, I am not enough of an expert in trade law to be able to answer that question. I think it is quite clear, though, that Canada has been very disappointed, in several cases, with the kinds of decisions that have flowed from those U.S. trade laws, as they were being enforced.

I think perhaps a final point I would like to make on this is that provisions such as this are very much against the interests of the United States as well. If you think of the fact that the currency realignment that has taken place over the past three years... the whole momentum of that is to improve the U.S. trade position; it is going to be in a position to increase its market share around the world. It is going to need market access in order to succeed, and the further the U.S. goes in the direction of protectionism against any of its trading partners, the more difficult it is going to be for the United States to succeed in that turnaround in its trade deficit.

Mr. Cassidy: What bargaining chips do we have during the six or seven years that lie ahead in discussion of subsidies—and we know that was the area where there was no meeting of minds at all in the trade discussions—in order to try to get a sufficient softening of the sharp edges of those American trade laws so that they will not threaten our sovereignty and our ability to implement our own industrial policies within, let us say, the kinds of limits the council suggests are appropriate?

Mr. Lazar: I go back to the softwood lumber example you used. Here I will just reflect the views passed on to me by a series of trade law lawyers who practice in the field, both in the United States and Canada. There is a group of four of them who I would say are relatively neutral to partisan Canadian considerations, a lot of them north of the border.

[Traduction]

De toute évidence, il faut d'abord que les deux pays s'entendent sur les règles du jeu. Ce projet de loi ne sera peut-être pas adopté. S'il l'est, les dispositions dont on vient de parler n'y figureront peut-être pas. Si elles y sont, les États-Unis seraient en contravention de l'accord de statu quo associé à l'entente de libre-échange. Cela a donc des ramifications très importantes.

M. Cassidy: Supposons que le projet de loi omnibus en matière de commerce ne soit pas adopté, ou qu'il est dilué au point de ne plus avoir de poids dans ce débat. Dans l'affaire du bois d'oeuvre et du poisson, pour prendre deux exemples récents, les Américains ont invoqué leurs lois commerciales ou ont usé de leurs pouvoirs sur les marchés pour s'ingérer dans certains volets de programmes canadiens pour les frapper de mesures de rétorsion ou pour imposer au Canada leurs propres politiques. Est-il juste d'affirmer que dans une moindre mesure même les lois commerciales américaines actuelles permettent aux Américains de menacer nos droits de pays souverain de mettre en oeuvre notre propre politique industrielle et sociale?

Mme Maxwell: Je connais trop peu le droit commercial pour pouvoir répondre. Ce qui est clair, c'est que le Canada a souvent été très déçu des décisions prises en vertu des lois commerciales américaines et de leur application.

Pour terminer, je voudrais dire que des dispositions comme celles-là vont nettement à l'encontre des intérêts des États-Unis aussi. Si vous considérez le réaligement des devises survenu au cours des trois dernières années... le but de l'opération est d'améliorer la situation commerciale des États-Unis. Ils seront en position d'accroître leur portion du marché partout dans le monde. Il leur faudra avoir accès aux marchés pour y parvenir, et plus les États-Unis courtisent le protectionnisme vis-à-vis de leurs partenaires commerciaux, plus il leur sera difficile d'éponger le déficit de la balance commerciale.

M. Cassidy: Quels jetons de marchandage avons-nous au cours des six ou sept années qui viennent lors des discussions sur les subventions? Au fait, nous savons que c'est le sujet sur lequel il n'y a eu aucune entente lors des négociations. Comment allons-nous émousser les lois commerciales américaines de manière à ce qu'elles ne menacent pas notre souveraineté et notre aptitude à appliquer nos propres politiques industrielles à l'intérieur du cadre que le Conseil juge approprié?

M. Lazar: Je reviens à l'exemple du bois d'oeuvre que vous avez utilisé. Je vais me contenter de répéter les avis que m'ont donnés tout un groupe d'avocats spécialisés en droit commercial et qui pratiquent aux États-Unis et au Canada. Quatre d'entre eux, à mon avis, sont relativement impartiaux, beaucoup d'entre eux viennent des États-Unis.

[Text]

[Translation]

• 1715

When the Canadian government confronted what it should do about the softwood lumber case, they believed the Canadian government realized that the U.S. government would take every step of legal appeal that was available to the U.S. government in the event that the ruling got overthrown at one of the levels along the way. So the minimum the Canadian government faced in terms of fighting the U.S. decision was two years—and the more likely result would be three to four years—before that could ultimately be resolved through the U.S. legal system.

The advice of all these people who are trade law experts is this. Had the deal the two governments have signed been in place at that time, the timeframe within which a definitive final decision was taken would have been something less than one year. Therefore, when the Canadian government came to make a calculation—do we negotiate a compromise or do we let this thing play itself out to the ultimate extent?—it would have been very different. Facing the possibility of 10 or 11 months of uncertainty versus three or four years of uncertainty is very different.

In short, the message we were getting from this particular group of people is that, first, the change in the time dimension to the proposed dispute settlement mechanism versus the status quo, versus the situation today, would have meant a marked improvement for the Canadian government. I might say that the group of lawyers from both sides of the border was pretty much of the view that the decision would not have been upheld in that case.

So if I can analogize from that—and I am not sure how widely one can analogize—there was a body of opinion there of a non-partisan sort saying that we might have had a very different result had the proposed set of rules been in effect.

The Vice-Chairman: Michael, we need to terminate because our colleagues have to go. There is a situation over at the House that I guess is catching their attention. Do you want one more question? Because you have your opportunity, I would be happy to grant it. But if you have had a good review and you can come back on another occasion, I am sure we will look forward to the next visit, particularly after the report that you have indicated will be coming down before Easter. I am sure it will catch the attention of all of us, and we will be happy then, I think, to have another review.

Mr. Cassidy: I think that is a useful idea. Perhaps when the council comes out with its next assessment, some of these questions then can be raised and discussed. I think they are very real questions, and I think this is a bit of a precedent in the sense that we have actually asked the council for advice rather than simply coming to meet with them once a year to look over the annual review.

Quand le gouvernement du Canada a dû décider ce qu'il devait faire dans le cas du bois d'oeuvre, ils croyaient que le gouvernement du Canada réalisait que le gouvernement des États-Unis allait prendre toutes les mesures juridiques possibles au cas où la décision serait renversée à un palier ou à un autre. La contestation par le gouvernement du Canada de la décision américaine allait prendre au moins deux ans—et vraisemblablement trois ou quatre ans—devant les tribunaux américains.

Voici ce que nous ont conseillé les experts en droit commercial. Si l'entente négociée par les deux gouvernements avait été en place à ce moment-là, le délai nécessaire à une décision définitive aurait été inférieur à un an. Donc, quand le gouvernement du Canada s'est demandé s'il fallait négocier un compromis ou laisser les choses suivre leur cours—cela a été très différent. Il y a toute une différence entre être dans l'incertitude pendant dix ou onze mois et trois ou quatre ans.

Bref, ce groupe nous a dit qu'un changement des délais prévus dans le mécanisme proposé de règlement des différends aurait été une nette amélioration pour le Canada. J'ajoute que les avocats des deux pays estimaient que la décision n'aurait pas été maintenue dans ce cas-ci.

Si on peut essayer d'établir une analogie, et je n'en suis pas certain, des experts impartiaux nous disaient que nous aurions pu aboutir à un résultat très différent si les règles proposées avaient été en vigueur.

Le vice-président: Michael, il faut lever la séance parce que nos collègues doivent s'en aller. Il se passe quelque chose à la Chambre qui exige leur attention. Voulez-vous poser une dernière question? Je vous y autoriserai volontiers si vous le voulez. Mais si vous estimez avoir fait le tour de la question et voulez revenir une autre fois, nous serons heureux de vous revoir surtout après la sortie du rapport qui sera publié avant Pâques. Je suis certain qu'il retiendra notre attention à tous et que nous serons heureux de faire à nouveau le tour de la situation.

M. Cassidy: Je pense que c'est une bonne idée. Lorsque le Conseil aura publié sa prochaine évaluation, on pourra soulever et débattre certaines de ces questions. Ce sont des questions très concrètes. Nous avons aussi créé un précédent en ce sens que nous avons demandé des avis au Conseil plutôt que de passer en revue leur rapport annuel.

[Texte]

The Vice-Chairman: Hear, hear!

Mr. Cassidy: I hope that is a precedent that is not ignored but is pursued in future.

The Vice-Chairman: Noted and to be remembered.

I thank our guests and witnesses, Mrs. Maxwell, Mr. Lazar and Mr. Preston, for contributing to the committee's work. We will look forward to that next visit. Thank you.

Ms Maxwell: Thank you very much, Mr. Chairman.

The Vice-Chairman: The meeting is adjourned.

[Traduction]

Le vice-président: Bravo.

M. Cassidy: J'espère que ce précédent nous inspirera à l'avenir.

Le vice-président: Vu et noté.

Je remercie nos invités et les témoins, M^{me} Maxwell, M. Lazar et M. Preston, d'avoir contribué aux travaux du Comité. Nous serons heureux de vous recevoir à nouveau. Je vous remercie.

Mme Maxwell: Merci beaucoup, monsieur le président.

Le vice-président: La séance est levée.





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WITNESSES

From the Economic Council of Canada:

Judith Maxwell, Chairman;

Ross Preston, Senior Project Director, Performance and
Outlook;

Harvey Lazar, Director.

TÉMOINS

Du Conseil économique du Canada:

Judith Maxwell, présidente;

Ross Preston, directeur principal de projet, Perspectives
économiques;

Harvey Lazar, directeur.

HOUSE OF COMMONS

Issue No. 139

Thursday, February 4, 1988

Chairman: Don Blenkarn

CHAMBRE DES COMMUNES

Fascicule n° 139

Le jeudi 4 février 1988

Président: Don Blenkarn

*Minutes of Proceedings and Evidence of the
Standing Committee on*

*Procès-verbaux et témoignages du Comité
permanent des*

Finance and Economic Affairs

Finances et des affaires économiques

RESPECTING:

Pursuant to Standing Order 96(2), questions relative
to the economic outlook

CONCERNANT:

En vertu de l'article 96(2) du Règlement, questions
relatives aux perspectives économiques

WITNESSES:

(See back cover)

TÉMOINS:

(Voir à l'endos)

Second Session of the Thirty-third Parliament,
1986-87-88

Deuxième session de la trente-troisième législature,
1986-1987-1988

STANDING COMMITTEE ON FINANCE AND
ECONOMIC AFFAIRS

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Norman Warner

(Quorum 7)

Marie Carrière

Clerk of the Committee

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Norman Warner

(Quorum 7)

Le greffier du Comité

Marie Carrière

MINUTES OF PROCEEDINGS

THURSDAY, FEBRUARY 4, 1988
(210)

[Text]

The Standing Committee on Finance and Economic Affairs met at 9:38 o'clock a.m. this day, in Room 269, West Block, the Chairman, Don Blenkarn, presiding.

Members of the Committee present: Don Blenkarn, Michael Cassidy, Mary Collins, Robert Layton, Paul McCrossan and Norman Warner.

In attendance: From the Committee's Research Staff: H. Bert Waslander, Research Director.

Witnesses: From Informetrica Limited: Michael McCracken, President. *From the University of Manitoba:* Paul Phillips, Professor. *From the University of Ottawa:* Duncan Cameron, Professor.

In accordance with its mandate under Standing Order 96(2), the Committee resumed consideration of questions relative to the economic outlook. (See *Minutes of Proceedings and Evidence for Thursday, January 21, 1988, Issue No. 132.*)

Michael McCracken made an opening statement and answered questions.

At 11:08 o'clock a.m., the sitting was suspended.

At 11:15 o'clock a.m., the sitting was resumed.

Paul Phillips and Duncan Cameron made opening statements and answered questions.

At 12:09 o'clock p.m., the Committee adjourned to the Call of the Chair.

Marie Carrière
Clerk of the Committee

PROCÈS-VERBAL

LE JEUDI 4 FEVRIER 1988
(210)

[Traduction]

Le Comité permanent des finances et des affaires économiques se réunit aujourd'hui à 9 h 38, dans la pièce 269 de l'Édifice de l'ouest, sous la présidence de Don Blenkarn, (*président*).

Membres du Comité présents: Don Blenkarn, Michael Cassidy, Mary Collins, Robert Layton, Paul McCrossan et Norman Warner.

Aussi présent: Du personnel de recherche du Comité: H. Bert Waslander, directeur de la recherche.

Témoins: De Informetrica Limited: Michael McCracken, président. *De l'Université du Manitoba:* Professeur Paul Phillips. *De l'Université d'Ottawa:* Professeur Duncan Cameron.

Conformément au mandat que lui confie le paragraphe 96(2) du Règlement, le Comité examine de nouveau les questions relatives aux perspectives économiques. (*Voir Procès-verbaux et témoignages du jeudi 21 janvier 1988, fascicule n° 132.*)

Michael McCracken fait une déclaration préliminaire et répond aux questions.

À 11 h 08, le Comité interrompt les travaux.

À 11 h 15, le Comité reprend les travaux.

Paul Phillips et Duncan Cameron font des déclarations préliminaires et répondent aux questions.

À 12 h 09, le Comité s'ajourne jusqu'à nouvelle convocation du président.

Le greffier du Comité
Marie Carrière

EVIDENCE

[Recorded by Electronic Apparatus]

[Texte]

Thursday, February 4, 1988

• 0937

The Chairman: Order, please.

Pursuant to Standing Order 96.(2), we are having a study of economic issues prior to the budget.

Our first witness this morning is Michael McCracken, President of Informetrica Limited. Mr. McCracken has what are said to be speaking notes, 72 pages of speaking notes, with tables on the rest of it. If you could do the five- or six-minute routine, then we could ask some questions, Mike.

Mr. Michael McCracken (President, Informetrica Limited): Thank you, Mr. Chairman. As always, I will be brief.

The matters I would like to take this opportunity to address today are some observations on the outlook for the United States economy and the Canadian economy. Given that this is a pre-budget discussion or backgrounder, I would also like to draw to your attention certain things about the current stance of fiscal policy and perhaps add a few comments to the debate on monetary policy, since you have been pursuing a better understanding of that with the testimony of the Governor of the Bank of Canada recently. So you will have some thoughts about what you might want to do later, I would like to suggest a couple of items for your future agenda.

• 0940

I do plan to give you some forecasts, but I caution you, as I do always, that the future is not "forecastable", and I usually add the word "fortunately". The first part is simply a warning to you that things can change, as you no doubt have found. There are shocks, policy changes, and other changes in behaviour that have not yet occurred or been anticipated.

However, the hopeful sign is that if you do not like what you see or hear in these forecasts, you should be aware that there is an opportunity for change.

Let us turn to the external environment. I will focus principally on the U.S., but in some sense we might think of this as a broader assessment of the world economy. It is our current expectation that world growth will continue in 1988, with expansion occurring in almost all countries, perhaps a bit slower paced than in 1987.

With the rearrangement of exchange rates that has occurred between the U.S. and Japan and the U.S. and

TÉMOIGNAGES

[Enregistrement électronique]

[Traduction]

Le jeudi 4 février 1988

Le président: A l'ordre s'il vous plaît. La séance est ouverte.

En vertu du paragraphe 96.(2) du Règlement, nous poursuivons notre examen prébudgétaire de certaines questions économiques.

Notre premier témoin ce matin est Michael McCracken, président d'Informetrica Limited. M. McCracken a apporté pour faire son exposé «quelques» notes avec tableaux et tout. Michael, je vous inviterais à nous le présenter en cinq ou six minutes, comme d'habitude, après quoi nous pourrions poser des questions.

M. Michael McCracken (président, Informetrica Limited): Merci, monsieur le président. Comme toujours, je serai concis.

J'aimerais profiter de cette occasion qui m'est donnée aujourd'hui pour faire quelques observations sur les perspectives économiques des États-Unis et du Canada. Comme cette réunion s'inscrit dans le cadre de discussions prébudgétaires, j'aimerais aussi mettre en relief certains éléments de la politique financière et ajouter mon grain de sel au débat sur la politique monétaire qui vous intéresse aussi puisque vous avez récemment invité à comparaître le gouverneur de la Banque du Canada. Ensuite, j'aimerais vous proposer quelques sujets que vous pourriez inscrire à de futurs ordres du jour.

Je compte en outre vous faire quelques prévisions en vous rappelant, comme je le fais toujours, que l'avenir n'est pas «prévisible», ce à quoi j'ajoute habituellement «heureusement». Je tiens d'abord à vous faire une mise en garde, à savoir que rien n'est statique, comme vous l'avez sans doute constaté. Il se produit parfois des chocs, de nouvelles orientations en matière de politique et des changements de comportement qui surviennent pour la première fois ou qui n'avaient pas été prévus.

Ainsi, si ces prévisions que je vais vous faire ne vous plaisent pas, vous pourrez toujours vous dire que tout changement n'est pas exclu.

Parlons d'abord de la conjoncture internationale. Je mettrai surtout l'accent sur les États-Unis mais cela servira, dans un certain sens, à une évaluation plus large de l'économie mondiale. Nous prévoyons actuellement que la croissance mondiale se poursuivra en 1988 dans presque tous les pays mais à un rythme légèrement plus lent qu'en 1987.

Le réaligement des taux de change intervenu entre les États-Unis et le Japon et les États-Unis et la plupart des

[Texte]

most European countries, it would suggest that production will exceed the domestic expenditures or demand in the United States and the opposite will be the case in Europe and Japan, with demand for expenditures exceeding their production.

This should not be something that we get terribly excited about. It is an integral part of an adjustment process that will eventually lead to lower trade deficits for the U.S. and countries linked to the U.S. dollar and smaller surpluses for Japan and Europe.

Let us move to the U.S. economy. The forecasts of key parameters there would be a continued expansion in the 2% to 3% range, in real terms, in 1988, slightly less rapid than 1987. The unemployment rate is remaining close to 6%. The consumer price index is increasing between 4% and 5% and nominal interest rates are increasing by some 50 to 150 basis points, or 0.5 or 1.5 percentage points. That is the year 1988.

In the period 1989-92, again over that period one should expect continued expansion, moderate inflation, stable, or slightly declining unemployment rates, although over that period one should not be surprised to see several quarters of weak output or even negative growth which could be described as a recession or a growth pause.

What I am giving you is in a sense a base view, one that I think would be held in some form by most corporate planners and people not simply trying to grab headlines. But it could be quite wrong. In fact, the U.S. economy could grow much more rapidly than I have indicated, or suffer a much more severe setback than that which I have noted.

We could have this departure occur anytime. It could in fact already be under way. For example, I have provided for you, in each of the next three years, a not implausible reason why there may be a recession and hopefully a not too implausible reason why economic growth may come in dramatically and more rapidly than is currently anticipated.

The favourite reason in 1988 is that we have much lower growth triggered by yet another drop in equity prices on Wall Street, leading to a break in consumer and business confidence and a collapse, perhaps thrown in for flavour, of several key financial institutions. This would no doubt lead to substantially lower growth or a major recession.

We should also keep in mind the possibility of an uptick; the recovery in business investment is more vigorous than what we had anticipated. Net exports could improve in real terms much more dramatically, and this

[Traduction]

pays européens donne à penser qu'aux États-Unis la production sera supérieure à la demande intérieure alors qu'en Europe et au Japon la demande sera supérieure à la production.

Il n'y a toutefois pas lieu de se préoccuper de cette situation. Elle s'inscrit en fait dans le cadre d'un processus d'ajustement qui se soldera par une diminution du déficit commercial aux États-Unis et dans les pays dont les résultats sont étroitement liés à la valeur du dollar américain, et par une réduction des excédents du Japon et de l'Europe.

Passons maintenant à l'économie américaine. Les principaux indicateurs permettent de prévoir pour 1988 une expansion soutenue située entre 2 et 3 p. 100 en termes réels, soit une progression légèrement moins rapide qu'en 1987. Le taux de chômage se maintiendra aux environs de 6 p. 100. L'augmentation de l'indice des prix à la consommation se situe entre 4 et 5 p. 100 et les taux d'intérêt nominaux gagneront entre 50 et 150 points de base ou 0.5 ou 1.5 point de pourcentage, toujours en 1988.

Pour la période allant de 1989 à 1992, on peut s'attendre à une expansion graduelle, à des taux d'inflation modérés, à un taux de chômage stable ou légèrement à la baisse même si, au cours de cette même période, il ne serait pas surprenant qu'il y ait, pendant plusieurs trimestres, un fléchissement de la production, voire même un taux de croissance négatif, ce qui constituerait en quelque sorte une récession ou une pause dans la croissance.

Ce que je vous décris essentiellement, c'est le scénario que retiendraient la plupart des planificateurs des sociétés et la plupart de ceux qui ne cherchent pas uniquement à faire la manchette. Il est peut-être tout à fait faux. En fait, l'économie américaine pourrait connaître une croissance beaucoup plus rapide ou un ralentissement beaucoup plus marqué que ne le laissent entrevoir mes projections.

Ce scénario pourrait être invalidé n'importe quand. Le revirement pourrait déjà être en cours. Par exemple, je vous ai proposé pour les trois années à venir une explication plausible d'une éventuelle récession et, je l'espère, une explication tout aussi plausible d'une reprise de la croissance économique qui serait plus marquée et plus rapide que celle prévue actuellement.

L'explication préférée en 1988, c'est celle d'un ralentissement de la croissance provoqué par un nouveau recul du cours des actions à Wall Street, suivi d'un affaiblissement de la confiance des consommateurs et des entreprises et, en prime, de l'effondrement de plusieurs des principales institutions financières. Cela entraînerait sans aucun doute un ralentissement considérable de la croissance ou une profonde récession.

Nous ne devons pas exclure non plus la possibilité d'un redressement; la reprise des investissements des entreprises est plus vigoureuse que nous ne l'avions prévu. Les exportations nettes pourraient s'améliorer de

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would flow from a specially strong performance in the trade-sensitive manufacturing sectors.

In 1989 the stories usually change a bit. There, the downside is either actual, or expected, or apprehended inflation, leading to substantial monetary restrictions, triggering the collapse in investment and consumption.

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The flip side, of course, would be that interest rates decline to a point at which rates are reasonable for the first time in many years, providing a base for continued investment expansion, increased housing and a stable, federal deficit. So 1989 you could think of as the flip side of a change in a rather steady-as-you-go monetary policy.

In 1990 the explanation for the downside triggers on a new Congress and a new President hammering out in 1989 a fiscal package of tax increases and expenditure cuts, the net consequence of which is to reduce economic growth sharply when implemented in 1990.

Of course there could be a flip side to that, but rather than that, perhaps 1990 might also be coloured by some change or shock on resource prices; one example of which might be world oil prices slipping further, providing some stimulus to the economy overall, although hurting oil and gas investment.

Well, I think you get an idea or a flavour of how the outlook in the U.S. might evolve and also the notion that obviously it is not known with any certainty when one can think of half a dozen not implausible alternative scenarios.

In Canada we are looking forward to continued economic growth in 1988. We think this year will come in at about 3.7%, 3.8%. In 1988 we expect real growth in gross domestic products of about 3% on a year-over-year basis. What this implies, you should be aware, is a pace of about 2% from the fourth quarter of 1987 through the fourth quarter of 1988. So if people are coming in to you and giving you other forecasts of let us say, 2.5 or 2 on a year-over-year basis, the implication of that would be a much slower pace on a fourth quarter to fourth quarter basis. That is just the way the arithmetic works out and it works the same for everyone.

The implication of that is that if you are growing, let us say, at a pace from the fourth quarter of 1987 to the fourth quarter of 1988 at about 2%, that is slightly below what we believe the potentials of the Canadian economy are and we will find out if that is the case. If we are growing slower than potential, a consequence is a rising

[Translation]

façon beaucoup plus dramatique en termes réels un cas de performance particulièrement bonne dans le secteur des biens manufacturés faisant l'objet d'échanges internationaux.

Pour 1989, les indicateurs sont généralement moins encourageants. Le ralentissement est soit confirmé ou prévu et le resserrement de la politique monétaire, par crainte d'une recrudescence de l'inflation, pourrait provoquer une chute très marquée des investissements et de la consommation.

Au contraire, les taux d'intérêt pourraient baisser et atteindre un niveau raisonnable pour la première fois depuis de nombreuses années, favorisant une progression constante des investissements, une augmentation des constructions résidentielles et la stabilisation du déficit fédéral. Ainsi, 1989 ne sera pas sans doute l'année du changement de cap pour ce qui est de la politique monétaire.

Le ralentissement prévu pour 1990 est attribuable à l'élection en 1989 d'un nouveau Congrès et d'un nouveau président qui prépareront un budget, fait d'augmentations d'impôts et de réductions de dépenses, dont le résultat net sera de réduire considérablement la croissance économique lorsqu'il sera mis en oeuvre en 1990.

Là encore, c'est tout le contraire qui pourrait se produire en 1990 s'il y avait effondrement des prix des matières premières; par exemple, les cours mondiaux du pétrole pourraient chuter davantage, stimulant ainsi l'économie dans son ensemble au détriment des investissements dans le secteur des hydrocarbures.

Cela vous donne une idée, quoique imprécise, des perspectives économiques des États-Unis, et le fait qu'il existe une demi-douzaine de scénarios aussi plausibles les uns que les autres illustre bien l'incertitude entourant ces projections.

Au Canada, nous pouvons nous attendre à une croissance économique soutenue en 1988. Le taux de croissance devrait se situer aux environs de 3.7 ou de 3.8 p. 100. En 1988, le taux de croissance réel du produit intérieur brut devrait être d'environ 3 p. 100 d'une année à l'autre. Je vous signale toutefois que cela signifie un taux de croissance d'environ 2 p. 100 du quatrième trimestre de 1987 jusqu'au quatrième trimestre de 1988. Ainsi, si certains vous prédisent un taux de croissance de 2.5 p. 100 ou de 2 p. 100 d'une année à l'autre, il faudra alors s'attendre à un rythme de croissance beaucoup plus lent d'un quatrième trimestre à l'autre. C'est un simple calcul arithmétique qui donne le même résultat pour tous.

Ce qu'il faut retenir, c'est que si le taux de croissance de l'économie est de 2 p. 100 entre le quatrième trimestre de 1987 et le quatrième trimestre de 1988, ce sera légèrement en deça du potentiel de l'économie canadienne et nous en jugerons le moment venu. Or, si la croissance est plus lente qu'elle ne pourrait l'être, il faut

[Texte]

unemployment rate. Our estimate would suggest that we will rise slowly so that an average of 8.4% for the year 1988 will be recorded and since we were at 8.1% in December 1987, sure enough, we have to rise to get that average. This is of course a good example of an area in which forecasters hope very much that they are wrong, and I will not be taking any steps to try to reach that number.

Inflation, in our forecasts, will again be in the 4% range, much as it has been since 1984. We all know that in 1988 we have higher indirect taxes, boosting this apparent rate on CPI, although the appreciation that has occurred both in 1987 and as anticipated in 1988 should help reduce the rate of inflation. Certainly, in our view at least, unit labour costs remain moderate in 1988.

I am also talking briefly about the period 1989-92, because in the budget documents you will be seeing their forecasts for that period since this encompasses then the five-year fiscal framework that the Department of Finance adopted a number of years ago. Over this second part of the period, again continued growth averaging perhaps a bit less than 3%. To the extent that we have that U.S. growth pause I mentioned earlier, a similar pause will occur here.

The problem with this average pace of growth is that it is again only barely above the potential rate of growth of the economy and hence only slow progress is made on the unemployment rate. At present, we are expecting that unemployment rate to remain above 7% through 1992.

CPI increases, as you would expect, are modest in that kind of environment, except of course for the possible indirect tax increases that may occur.

Now, about policy—we have assumed in this base case or reference view that there are no new major moves towards fiscal restraint; that interest rates remain high in real terms, high at least on a historical basis, but that there is some reduction in the differentials between Canada and the United States. The exchange rate is expected to appreciate slightly from the current level of about 75.4¢ in 1987 to over 80¢ in the early 1990s.

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On the regional side, the pattern that emerges from this kind of growth is one in which the inverted teacup kind of growth patterns continue. That is, central Canada and Manitoba will grow more rapidly than average or at the average, and the Atlantic provinces, Saskatchewan, Alberta and B.C. will grow substantially below average, with the Northwest Territories and the Yukon dominated by whether or not certain major projects go ahead. So you

[Traduction]

s'attendre à une augmentation du taux de chômage. Nous prévoyons déjà pour 1988 un taux de chômage moyen de 8.4 p. 100 et, comme il était à 8.1 p. 100 en décembre 1987, il faudra manifestement qu'il y ait augmentation pour que nous atteignons ce taux moyen. Il va sans dire que les prévisionnistes espèrent bien se tromper sur cet indicateur et je ne prendrai aucune mesure pour obtenir ce résultat.

D'après nos prévisions, l'inflation se situera aux environs de 4 p. 100 comme c'est le cas depuis 1984. Nous savons tous qu'en 1988 les taxes indirectes seront plus élevées et exerceront des pressions à la hausse sur l'IPC, mais la hausse enregistrée en 1987 et prévue pour 1988 devrait contribuer à réduire le taux d'inflation. Nous avons constaté pour notre part que les coûts unitaires de la main-d'oeuvre demeurent modérés en 1988.

Je mentionne brièvement la période allant de 1989 à 1992, parce que le ministère des Finances inclura ses prévisions pour cette période dans les documents budgétaires que vous verrez bientôt, étant donné qu'il y a recoupement avec le plan financier quinquennal adopté par le ministère il y a quelques années. Pour la deuxième moitié de la période, le taux de croissance moyen demeurera légèrement inférieur à 3 p. 100. Nous devrions connaître une pause dans la croissance semblable à celle des États-Unis, dont j'ai déjà parlé.

Comme ce taux de croissance moyen n'est que légèrement supérieur au taux de croissance potentiel de l'économie, nous ne pourrions réduire rapidement le taux de chômage. À l'heure actuelle, nous prévoyons que le taux de chômage demeurera au-dessus des 7 p. 100 pendant tout 1992.

Comme il faut s'y attendre dans pareille conjoncture, les augmentations de l'IPC demeureront modestes mais refléteront, bien sûr, les éventuelles augmentations des taxes indirectes.

Passons maintenant à la politique. Nous avons supposé dans ce scénario de référence que le gouvernement n'imposerait pas de nouvelles mesures importantes de restrictions budgétaires, que les taux d'intérêt réels demeureraient élevés, du moins par comparaison aux taux connus récemment, mais qu'il y aurait réduction de l'écart entre les taux canadiens et américains. Nous prévoyons que le dollar canadien s'appréciera légèrement pour passer de 75,4c. en 1987 à plus de 80c. au début des années 90.

Nous constatons que les taux de croissance continueront de varier selon les régions, le graphique ressemblant à une tasse inversée. Autrement dit, le centre du pays et le Manitoba continueront de connaître une croissance plus rapide ou aussi rapide que la moyenne alors que les provinces de l'Atlantique, la Saskatchewan, l'Alberta et la Colombie-Britannique afficheront un taux inférieur à la moyenne, celui des Territoires du Nord-

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could have plus six or you could have zero there, depending on one or two projects.

In the year 1988, it will appear as if things are getting better, because the growth rates in Quebec, Ontario and British Columbia will be down from where they were in 1987, and in Quebec and Ontario perhaps substantially so, although they will still remain above average.

Most other regions will expand more rapidly in 1988 than in 1987, but not more rapidly than central Canada. So the gap does not get smaller; it just maintains its position. Unemployment rates remain high outside of Ontario and Manitoba, with little progress through 1992.

Again, there are risks to this forecast. The U.S. ones, obviously. . . independent of the kinds of scenarios there, we could certainly find that business investment, which is already expected to be a fairly strong component of economic growth over the next several years, could be even more so, particularly if there is some serious move on the part of business to restructure in anticipation of the free trade agreement.

Oil and gas investment is expected to turn around in 1988, or at least stop falling. Recent weaknesses in oil prices, of course, could trigger substantially further declines.

We do not expect the consumer to be as vigorous in the next several years as he has been in the past several. Recent declines in the savings rate are not expected to continue, and real incomes are muted by the slow growth in real wages and fiscal restraint, but the consumer could surprise us again and further declines in the net savings rate could occur. The rate at the moment is about 9%, about twice that of the United States.

Much of the current level of the savings rate in Canada, we feel, is attributable to high levels of what we call contractual savings in the form of company pensions and RRSPs, and when you adjust for that it appears there is little room for further declines in what we might call discretionary savings.

Well, so much for the outlook. I will be happy to look at internal questions. Very quickly, on the federal fiscal policy, it is important to know where we are at, and what happens if the policy packages we currently have remain.

I bring to your attention to the report of the Auditor General tabled recently, and I have included in here the annex chart and some of the data behind that chart for your information.

[Translation]

Ouest et du Yukon dépendant de la décision d'aller de l'avant avec certains grands projets. Dans ces deux dernières régions, le taux de croissance pourrait varier entre zéro et six p. 100, selon la réalisation ou le report d'un ou deux projets.

En 1988, la situation semblera s'améliorer parce que les taux de croissance au Québec, en Ontario et en Colombie-Britannique seront inférieurs à ceux de 1987, voire même beaucoup moins bons au Québec et en Ontario, même s'ils demeurent au-dessus de la moyenne.

La plupart des autres régions connaîtront une expansion beaucoup plus rapide en 1988 qu'en 1987, mais le rythme de croissance sera beaucoup moins rapide que dans le centre du pays. Ainsi, l'écart ne se rétrécit pas; il demeure stable. Sauf en Ontario et au Manitoba, les taux de chômage demeureront élevés jusqu'en 1992.

Là encore, ces prévisions n'ont rien de certain. Il est clair qu'aux États-Unis. . . indépendamment de l'évolution des indicateurs aux États-Unis, nous pourrions certainement constater que les investissements des entreprises, dont on prévoit déjà qu'ils stimuleront fortement la croissance économique au cours des années à venir, seront un facteur encore plus important de la croissance, surtout si les entreprises décident de restructurer leurs opérations en prévision de l'entrée en vigueur de l'accord de libre-échange.

Nous prévoyons qu'il y aura reprise des investissements dans le secteur des hydrocarbures en 1988 ou à tout le moins qu'ils cesseront de chuter. Le niveau peu élevé des prix du pétrole, ces derniers temps, pourrait toutefois provoquer de nouvelles baisses.

Nous prévoyons pour les quelques années à venir un fléchissement de la demande des consommateurs par rapport au niveau des dernières années. Les taux d'épargne devraient cesser de diminuer et les revenus réels diminuent en raison de la lente croissance des salaires réels et des mesures de restriction budgétaire, mais le consommateur pourrait nous surprendre et réduire encore le taux d'épargne net. À l'heure actuelle, il est d'environ 9 p. 100, soit le double de celui des Américains.

À notre avis, le niveau actuel de l'épargne au Canada est attribuable en grande partie au niveau élevé de ce qu'il est convenu d'appeler l'épargne contractuelle, c'est-à-dire les caisses de retraite des sociétés et les REER. Compte tenu de cette composante de l'épargne, l'épargne discrétionnaire ne saurait baisser beaucoup plus.

Voilà qui met fin à mon survol des perspectives économiques. Si vous avez des questions à poser à ce sujet, j'y répondrai avec plaisir. En ce qui concerne la politique budgétaire fédérale, je dirai brièvement qu'il est important de faire le point et de voir ce qui se produira si la politique actuelle est maintenue.

Je vous rappelle que le vérificateur général a déposé récemment son rapport et j'ai inclus en annexe, pour votre gouverne, le tableau et certaines des données d'accompagnement.

[Texte]

The key message to take away from the disaggregation of the deficit into its three principal components is that there has been a move towards discretionary fiscal restraint, as reflected in what we call the primary structural balance, moving from a deficit of about \$6 billion in 1985 to a surplus of \$1.4 billion in 1986 and a similar level in 1987.

Current policies move towards even further restraint in 1988, with a projected primary structural surplus of some \$9.6 billion and continuing surpluses in the years 1989 to 1991. I would suggest that those who claim the government has not done anything are not looking at the numbers.

In fact, the National Accounts deficit, which is what this framework we are just looking at refers to, is in fact running in the first three quarters of 1987 at an annual rate of about \$23 billion. That is below the finance forecast of some \$25.7 billion made in June 1987, almost \$3 billion lower. This will probably turn out to reflect the somewhat stronger economy than had been anticipated, and reduce the cyclical component of this disaggregation with little change to the other components.

• 0955

Therefore, with an economic outlook, which at least I consider not vigorous, with a continued high level of unemployment and little progress, perhaps in fact some backsliding in 1988, I would be concerned if we applied even further restraint in the February 1988 budget.

Even with what is already planned, there is some risk of tipping the economy towards slower growth. A similar shift, in 1981 for example, I would suggest, contributed to the deep recession of 1982, and the consumer was also vulnerable then.

I am not suggesting that the primary structural balance being in surplus means we have no problems. It is only one of the three components. The cyclical component will remain negative as long as we continue to operate below the potential of the economy, net interest payments continue to increase, although at a slower rate, reflecting the accumulating debt, and high nominal interest rates.

It is to that latter issue I would like to turn briefly, the debt-ratio's instability, because the same forecast from the Department of Finance, in June, is a pattern in which the debt Gross Domestic Product ratio rises, although tending to stabilize in the early 1990s.

This has recently been raised as a major source of concern by the C.D. Howe Institute, along with their call for further fiscal restraint. What is the problem? A ratio rising at an accelerating rate is a matter of concern because at some point it does reach a level and pace of

[Traduction]

Ce qu'il faut surtout retenir de la ventilation qui est faite des trois principales composantes du déficit, c'est que le gouvernement a mis en place un programme de restrictions budgétaires discrétionnaires, comme en témoigne ce que nous appelons l'équilibre structurel primaire. Le déficit d'environ 6 milliards de dollars enregistré en 1985 fait place à un excédent de 1,4 milliard de dollars en 1986 et à un excédent semblable en 1987.

Les politiques actuelles du gouvernement imposeront de nouvelles restrictions en 1988 puisqu'il est prévu que l'excédent structurel primaire atteindra 9,6 milliards de dollars et que des excédents seront aussi enregistrés entre 1989 et 1991. À mon avis, ceux qui reprochent au gouvernement de n'avoir rien fait ne tiennent pas compte des chiffres.

De fait, le déficit calculé selon les chiffres des Comptes nationaux, auquel renvoie l'analyse que nous venons de voir, atteint pour les trois premiers trimestres de 1987, 23 milliards de dollars environ, à un taux annualisé, soit 3 milliards de dollars de moins que les 25,7 milliards de dollars prévus par le ministère des Finances au mois de juin 1987. Ce chiffre reflètera sans doute mieux la croissance de l'économie plus forte que prévue et réduira l'élément cyclique du déficit désagrégé, sans toutefois modifier de façon significative les autres éléments.

Par conséquent, étant donné les prévisions d'une croissance économique que j'estime modeste et le maintien d'un taux de chômage élevé, qui pourrait même augmenter en 1988, je jugerais mal venue l'imposition de nouvelles restrictions dans le budget de février 1988.

Les mesures prévues risquent déjà de freiner la croissance de l'économie. J'estime, par exemple, que des mesures semblables décidées en 1981 ont contribué à provoquer la profonde récession de 1982 à une époque où les consommateurs étaient tout aussi vulnérables qu'aujourd'hui.

Je ne prétends pas que l'excédent structurel primaire doive être interprété comme voulant dire qu'il n'y a pas de problème. Ce n'est qu'un élément sur trois. L'élément cyclique demeurera négatif tant que l'économie ne tournera pas à pleine capacité, que le montant net des frais d'intérêt continuera d'augmenter, quoique plus lentement, en raison de la dette cumulative et que les taux d'intérêt nominaux demeureront élevés.

J'aimerais d'ailleurs parler brièvement de l'instabilité du ratio de la dette parce que, en juin, le ministère des Finances a prévu que le ratio dette/PIB augmentera même s'il doit se stabiliser au début des années 1990.

L'Institut C.D. Howe a d'ailleurs dit récemment que c'est là une source sérieuse de préoccupation et a réclamé de nouvelles restrictions budgétaires. Quel est le problème? L'augmentation toujours plus rapide du ratio est inquiétante parce qu'au-delà d'un certain niveau, les

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growth in which financial markets are perhaps unable to cope, or the exchange rate becomes unglued.

However, the current scenario is not such a case. If further progress is desired, that is, if you are not happy with the stabilizing rate now in place, and want to call for some major changes, I suggest that those who do so look at all the relevant elements determining this ratio. Those are the growth and the economy, real interest rates, and the primary balance.

A stronger economy will reduce these deficits and the debt ratio, both through an improvement in the deficit, as well as an increase in the level of Gross Domestic Product. Lower real interest rates also help in reducing the interest payments and indirectly promoting real growth.

It is only if you believe, or intend as a policy, that real interest rates will exceed the real growth of the economy for many years to come, does it make any sense to run a primary surplus.

But if that is in fact the world we are going to be living in, all debtors are going to want to be running a surplus. Everyone will want to get out of debt and be an asset holder, be a *rentier*, and if they do not, then of course their debt-income ratios will rise inexorably.

An interesting question may be whether it is responsible for the government to be trying to be doing the same thing at the same time. In any case, in such a world, I suspect that no one will in fact succeed in their goal, and the consequence will be high and growing unemployment of both labour and capital.

I would suggest that the problem of the debt-GDP ratio stability can be seen as also relating to interest rates and the underperformance of the economy, and the facile cure of more fiscal restraint is not the only option, and one might want to add it is not clear if it is even in the right direction.

This then raises the issue of appropriate monetary policy settings. You had a long tutorial on monetary policy here, several weeks ago, from the governor, and I would not suggest that I will try to match his lucidity.

I would, however, state quite clearly that in my view interest rates in Canada are high. They are high relative to those of the United States at this point in time, and they are probably high in real terms. The real interest rate, by the way, is the nominal interest rate less the expected rate of inflation.

The Governor of the Bank of Canada recently testified before your committee about the conduct of monetary policy, outlining his objective of zero inflation and his concerns about the tightness of the economy, particularly in Ontario.

[Translation]

marchés financiers s'essoufflent et le taux de change se dégrade.

Toutefois, le problème ne se pose pas actuellement. Je répondrais à ceux qui jugent insatisfaisants les progrès réalisés jusqu'à maintenant et le taux stabilisateur pratiqué actuellement, et qui réclament une intervention vigoureuse, qu'ils doivent tenir compte des éléments pertinents qui influent sur ce ratio. Il s'agit du taux de croissance de l'économie, des taux d'intérêt réels et du déficit primaire.

Une économie plus forte permettra de réduire ces déficits et le ratio de la dette tant en diminuant le déficit qu'en augmentant le niveau du produit intérieur brut. La réduction des taux d'intérêt réels contribuera à réduire les paiements d'intérêts et favorisera, indirectement, une croissance réelle.

Le gouvernement a raison d'accumuler un excédent primaire uniquement s'il croit que les taux d'intérêt réels dépasseront pendant de nombreuses années le taux de croissance réel de l'économie ou si c'est l'objectif qu'il vise.

Or, si c'est effectivement ce qui nous attend, tous les créanciers voudront accumuler un excédent. Chacun voudra liquider ses dettes et devenir rentier, sans quoi leur ratio dette-revenu augmentera démesurément.

Ce serait intéressant de savoir si le gouvernement agit de façon responsable lorsqu'il essaie de tout faire en même temps. De toute façon, dans pareil cas, je soupçonne que personne n'atteindra l'objectif et qu'il en résultera un sous-emploi croissant de la main-d'oeuvre et du capital.

J'estime que le problème de la stabilité du ratio dette-PIB est aussi attribuable aux taux d'intérêt et à la performance décevante de l'économie et que la seule option n'est pas la solution facile des restrictions budgétaires, dont on doit se demander si elles sont susceptibles de donner des résultats.

Cela m'amène à aborder la question de l'adoption de politiques monétaires appropriées. Il y a quelques semaines, le gouverneur vous a donné un long cours sur la politique monétaire et je n'oserais prétendre posséder la même lucidité que lui.

Je suis toutefois prêt à dire très clairement qu'à mon avis, les taux d'intérêt au Canada sont élevés. Ils le sont par rapport à ceux des États-Unis à l'heure actuelle et le sont aussi en termes réels. Je vous rappelle en passant que le taux d'intérêt réel, c'est la différence entre le taux d'intérêt nominal et le taux d'inflation prévu.

Le gouverneur de la Banque du Canada a comparu récemment devant votre comité et vous a expliqué que sa politique monétaire reflète le fait que son principal objectif est de ramener l'inflation à zéro et d'éviter une surchauffe de l'économie, particulièrement en Ontario.

[Texte]

We have seen those concerns reflected recently in the slow growth in monetary aggregates, rising interest rates, and the rising exchange rate.

In this environment, I would suggest we should understand what it is we are trying to do.

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The challenge is to make a transition from the present environment to one in which real interest rates are at or below the real growth in the economy, and at the same time not to abandon the gains made on the inflation front or the real income gains that flow from the appreciations. I do not think there is any disagreement on this objective. I think there is wide agreement on it. What is not clear, however, is how you do it, who goes first, and in what order.

In the interest of making it look simple, let me simply suggest we start with interest rates in Canada being reduced by at least one or two percentage points. This would reduce the differential between Canadian and U.S. rates to under 100 basis points. This would improve the fiscal picture in Canada directly. We think the slowing pace of inflation, continued optimism about the future of the Canadian economy, and the free trade agreement would help to offset any significant depreciation of the currency.

The other recommendation is that monetary policy is too blunt an instrument to use for slowing down growth in particular regions. The Bank of Canada should stop worrying about Toronto. Some overheating there is likely to lead to expansion elsewhere and should be viewed as a necessary part of the growth process. The best thing that can happen for the Maritimes is for a company to move there because it cannot afford to live in Toronto, for example.

There is no question that lower rates of inflation may be the primary concern of the bank, but I feel they should not be left alone in their pursuit of that objective. It is time for us to begin a process of consultation among business, labour, governments, and other groups, with the objective of improving our inflation performance and real performance simultaneously. It is no challenge to get inflation down if you have the unemployment rate at 9% or 10%. Nor is it any real challenge to get the unemployment rate down to 4% and then disregard inflation. What the challenge is, what makes it work, why there are needs for Banks of Canada, Departments of Finance, and committees of the House, is to do both, or to go as far as one possibly can towards those objectives; plus, of course, as you know, many others.

Two other points or matters for your committee. Index bonds: I will not go into those at any great length, but obviously you asked me what the real rate of interest is in Canada. I can tell you how to calculate it, but we really

[Traduction]

Ces objectifs se sont reflétés récemment dans la lente croissance des agrégats monétaires, l'augmentation des taux d'intérêt et la montée du taux de change.

Cela étant dit, il faut à notre avis chercher à comprendre ce que nous cherchons à faire.

Le défi consiste à ramener les taux d'intérêt réels au niveau ou en deçà du niveau de la croissance réelle de l'économie sans toutefois renoncer à lutter contre une reprise de l'inflation et sans renoncer à l'augmentation du revenu réel qui résulte de la croissance. Tout le monde s'entend, je crois, sur cet objectif. Il est généralement accepté. Ce qu'on ne sait pas encore, c'est comment on doit s'y prendre et qui doit prendre l'initiative.

Je dirais, pour vous donner l'impression que c'est simple, qu'il faut d'abord et avant tout réduire les taux d'intérêt au Canada d'au moins un ou deux points de pourcentage. Cela ramènerait l'écart entre les taux canadien et américain à moins de 100 points de base. Cela améliorerait directement la situation financière du Canada. Nous croyons que le ralentissement de la progression de l'inflation, l'optimisme soutenu quant aux perspectives économiques du Canada et l'accord de libre-échange compenseront dans une certaine mesure toute dépréciation notable de notre dollar.

Nous estimons par ailleurs que la politique monétaire est un instrument trop grossier, qui ne devrait pas être utilisé pour ralentir la croissance dans certaines régions. La Banque du Canada devrait cesser d'être tourmentée par Toronto. Une éventuelle surchauffe en Ontario pourrait favoriser l'expansion ailleurs et devrait être perçue comme un élément nécessaire du processus de croissance. Par exemple, les Maritimes se réjouiraient de la venue d'une société qui aurait jugé le coût de la vie à Toronto au-dessus de ses moyens.

Il ne fait aucun doute que le principal souci de la Banque c'est la lutte contre l'inflation, mais j'estime qu'il ne faut pas la laisser poursuivre seule cet objectif. Il est grand temps que nous engagions des consultations avec les entreprises, les syndicats, les gouvernements et les autres groupes intéressés dans le but d'améliorer du même coup les résultats au plan de l'inflation et la performance de l'économie. Ce n'est pas difficile de réduire les taux d'inflation lorsque les taux de chômage atteignent 9 ou 10 p. 100. Ce n'est pas non plus très difficile de ramener le taux de chômage à 4 p. 100 en laissant libre cours à l'inflation. Le vrai défi pour la Banque du Canada, le ministère des Finances et le Comité de la Chambre, c'est de se rapprocher autant que possible et en même temps de ces deux objectifs parmi bien d'autres, comme vous le savez.

J'aimerais aborder deux autres questions. Je ne vais pas discuter en détail des obligations indexées mais vous m'avez demandé ce qu'est le taux d'intérêt réel au Canada. Je peux vous expliquer comment le calculer mais

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do not know what it is, because it is the current interest rate less the expected inflation rate. The way you get a measure of that is to create a market in which people can buy and sell instruments that bear real interest rates. What I would suggest you give serious thought to is the consideration of a set of indexed bonds being issued by the federal government, one purpose of which would be to provide that market signal on real interest rates.

There is also a lot of interest at the moment in providing indexed pensions, at least to some groups. I guess the federal civil service will come later. A major barrier, of course, is the uncertainty about future inflation and interest rates and the sharing of the risks. I suggested that these same indexed bonds represent at least a useful vehicle for bridging that gap. I simply leave the suggestion with you. You may want to look at this issue in greater depth, perhaps examining the experience in the United Kingdom with its issue, as well as that of several other countries.

The second item is the macro-economic effects of stage two. You are going to hear lots about stage two. You already have. With the full-blown package that is at least being talked about, it is likely the consumer price index will increase substantially on what should be a one-time basis. Such an adjustment raises a number of macro-economic issues, including whether further inflation will be induced by cost-of-living clauses, by price escalators in the collective bargaining process. What are appropriate indexing factors to use for transfer payments, personal income taxes, and other public expenditures? What should be the monitoring policy adjustment? How do we ensure foreign observers do not misread the price change as persistent higher inflation? With a package that reduces a direct tax burden on some, raises the cost of living of most, increases sales tax credits for lower income groups, and also alters corporate taxation, how will anyone know the net effect on their group?

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On your trip to New Zealand, I suggest you probe their experience in this area and, in particular, focus on the role of the real income indexes prepared by their Department of Statistics. Did these indexes help various groups to understand the major changes implemented? What problems were encountered? Would they have done the same thing if they were to do it over again?

To conclude my formal comments, I would like to simply read to you a paragraph or two from a recent article in *The New Yorker*, November 23, 1987, called "The Annals of Finance, Section Three: The Hardest Choice", by William Greider. I think it quite appropriate, although he is talking about the United States Federal

[Translation]

je ne sais pas au juste où il se situe puisqu'il s'agit du taux d'intérêt actuel moins le taux d'inflation prévu. Il est déterminé par un marché sur lequel les gens peuvent acheter et vendre des titres portant un taux d'intérêt réel. J'aimerais que vous envisagiez sérieusement la possibilité pour le gouvernement fédéral d'émettre des obligations indexées, dont une des raisons d'être serait d'indiquer au marché le niveau des taux d'intérêt réels.

Il est souvent question ces jours-ci d'accorder des pensions indexées, du moins à certains groupes. J'imagine que la Fonction publique fédérale aura son tour. Parmi les principaux obstacles, notons l'incertitude quant aux futurs taux d'inflation et d'intérêt et le partage des risques. A mon avis, ces mêmes obligations indexées pourraient dans une certaine mesure combler l'écart. C'est une suggestion que je vous fais. Vous voudrez sans doute l'examiner plus en profondeur et tenir compte de l'expérience tentée par le Royaume-Uni et plusieurs autres pays qui ont émis de telles obligations.

Enfin, j'aimerais parler des répercussions macro-économiques de la deuxième étape de la réforme fiscale. Vous en entendrez beaucoup parler. C'est déjà fait. Si les propositions déjà à l'étude sont adoptées, il est fort probable que l'indice des prix à la consommation fera un bond unique mais considérable. L'ajustement que cela suppose soulève un certain nombre de questions macro-économiques, notamment celle de savoir si les indemnités de vie chère et les clauses d'indexation négociées provoqueront une relance de l'inflation. Quels facteurs d'indexation devront être retenus pour les paiements de transfert, l'impôt sur le revenu des particuliers et autres dépenses publiques? Quel ajustement doit être prévu dans la politique de surveillance? Comment éviterons-nous que les observateurs étrangers ne voient dans l'augmentation des prix un signe d'une relance persistante de l'inflation? Comment mesurerons-nous l'effet net sur un groupe donné si nous allégeons directement le fardeau fiscal de certains, si nous augmentons le coût de la vie pour la plupart des Canadiens, si nous augmentons les crédits au titre de la taxe de vente pour certains groupes à faible revenu et si nous modifions aussi le régime d'imposition des sociétés?

Lorsque vous vous rendrez en Nouvelle-Zélande, je vous conseille de voir ce que ce pays a fait dans ce secteur et, notamment, de vous concentrer sur l'importance des indices de revenu réel préparés par son ministère de la statistique. Ces indices ont-ils permis à divers groupes de comprendre les profonds changements mis en oeuvre? A quels problèmes se sont-ils heurtés? Procéderaient-ils de la même façon si c'était à refaire?

Pour conclure mes observations, je voudrais simplement vous lire un paragraphe ou deux d'un article récent de William Greider, paru dans *The New Yorker* du 23 novembre 1987 et intitulé «Les annales de la finance, chapitre 3: le choix le plus difficile». Il est tout à fait pertinent, à mon avis, même si l'auteur parle de la

[Texte]

Reserve in this third part of this three-part series. I hear some of the same frustrations and concerns we have here in Canada. I quote:

A genuine economic reconstruction will likely not begin until all the contending forces—from Wall Street investors to Iowa farmers, from the White House and Congress to the insulated governors of the Federal Reserve—are willing to acknowledge their complicity in the destructive tug of war between wage earners and wealth holders which has been under way for the last two decades. The money question has, in a sense, been tearing things apart, first by the extreme swing of inflation, and then by the opposite extreme, the capitulation to the anxieties of capital. Wherever one's sympathies may lie, it is a fact that human livelihoods and valuable enterprises alike are damaged by these violent swings in money values. Meanwhile, the nation's fundamental economic problems go unintended. When economic growth is persistently disappointing, it is inevitable that the two groups, which sometimes overlap, will dispute the diminishing shares.

The beginning of reconciliation would require all parties to acknowledge that the conflicts surrounding money are ultimately political questions and must be settled in political arenas. It is bizarre, for instance, to imagine that the federal government

—speaking here of the U.S. federal government—

can somehow manage the world's most powerful economy through two separate and independent agents, its elected representatives and the central bank, which are not even required to co-ordinate their actions. The awesome powers of the independent Federal Reserve have accumulated, after all, mainly because in this regard representative democracy abdicated its responsibility. Ultimately, it is idle hope that remote technocrats working in obscurity at an independent central bank, however earnest and expert and dedicated, can resolve the deepest divisions within the American system.

Whether that applies here in Canada, we can cover in questions.

The Chairman: Thank you. Before I go on to my first questioner, I was wondering if you would explain to me so I can explain to my constituents how the Government of Canada has a surplus of \$9.6 billion in 1988.

Mr. McCracken: Near the back of my brief, there are three charts taken from the report of the Auditor General in 1987 showing the components of the federal deficit. Let us start recognizing that the deficit, as measured by this

[Traduction]

Réserve fédérale américaine dans cette troisième et dernière partie d'une série d'articles. Je constate que les sources de mécontentement et les préoccupations sont parfois les mêmes qu'au Canada. Je cite:

Il n'y aura pas de véritable relance économique tant que toutes les forces en jeu—des investisseurs de Wall Street aux agriculteurs de l'Iowa, de la Maison Blanche et du Congrès aux gouverneurs isolés de la Réserve fédérale—ne seront pas prêts à reconnaître leur complicité dans la lutte acharnée et destructive qui oppose depuis une vingtaine d'années les salariés et les riches. La question financière a d'une certaine façon provoqué un déséquilibre, tout d'abord en raison des fluctuations extrêmes de l'inflation et ensuite parce que l'on a cédé de façon tout aussi extrême à la fièvre du capital. Quel que soit le côté pour lequel on penche, il est un fait que ces fluctuations violentes de la valeur monétaire nuisent à la fois au gagne-pain des particuliers et aux chiffres d'affaires d'entreprises très utiles. Dans l'intervalle, on a tendance à négliger les problèmes économiques fondamentaux du pays. Lorsque la croissance économique est continuellement décevante, il est inévitable que les deux groupes, qui se chevauchent parfois, se disputent les maigres avantages qui restent.

Pour qu'une réconciliation s'amorce, toutes les parties devront reconnaître que les différends d'ordre monétaire sont en dernier ressort des problèmes politiques qui doivent se régler sur la scène politique. Il est étrange, par exemple, d'imaginer que le gouvernement fédéral

... il s'agit ici du gouvernement fédéral américain. ...

réussit à gérer l'économie la plus puissante du monde par l'entremise de deux agents distincts et indépendants: ses représentants élus et la banque centrale, qui ne sont même pas tenus de coordonner leurs initiatives. Après tout, les pouvoirs impressionnants de la Réserve fédérale indépendante ont augmenté principalement parce que la démocratie représentative a renoncé à sa responsabilité dans ce domaine. En dernier ressort, il est inutile d'espérer que des technocrates isolés dans leur tour d'ivoire dans une banque centrale indépendante, malgré leur honnêteté, leur compétence et leur dévouement, pourront régler les divergences profondes du système américain.

Il y a lieu de se demander si cela s'applique au Canada.

Le président: Je vous remercie. Avant de donner la parole au premier député qui vous posera ses questions, j'aimerais que vous m'expliquiez, pour que je puisse l'expliquer à mes électeurs, comment le gouvernement du Canada a, en 1988, un excédent de 9,6 milliards de dollars.

M. McCracken: Vers la fin de mon mémoire se trouvent trois tableaux, provenant du rapport de 1987 du vérificateur général, qui indiquent les éléments du déficit fédéral. Nous devons tout d'abord admettre que le déficit,

[Text]

particular process, is approximately \$26 billion in 1986, or maybe more precisely, \$24.777 billion. It has actually changed since then, but call it \$25 billion.

It has three components. One reason the deficit is so large is that we are running an unemployment rate and a level of output in the economy that is substantially below our capacities, our capabilities and the available labour supply.

The first panel on these three charts shows that particular level and estimates or indicates that in the 1986 calendar year about \$8.6 billion of the deficit could be attributed to the poor performance, which has the effects of reducing federal tax revenues below what they otherwise would be and raising unemployment insurance benefits.

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The Chairman: What is the zero rate for unemployment then?

Mr. McCracken: In this particular set of calculations, it appears that the Bank of Canada has used about 6.1%. It is not viewed as a full employment budget but rather as a cyclically adjusted budget. It is, in some sense, the average over the last seven or eight years.

The Chairman: What is your view as to what is full employment?

Mr. McCracken: I would not stop challenging governments until we got below 4%.

The Chairman: Would you get rid of the UIC to do that?

Mr. McCracken: No, I do not think it is necessary.

Let us say we have then taken care of explaining or identifying some \$8.6 billion of the deficit as due to high-unemployment-related economic problems. The second component is to look at what are the revenues less the program costs with the economy performing reasonably well. In other words, if we were to take from the deficit that part that is cyclical and look at what is left, it is made up of two parts: those having to do with the direct operations of governments, revenues and program expenditures; and the part going to service current and past debts.

That particular component is what we call the primary structural balance. Perhaps more understandably, the Auditor General chose to call it revenues minus program costs with the economy performing well. Again, that is indicated in 1986 to be in the small surplus of about \$1.4 billion that I referred to earlier.

The Chairman: You did not tell me how you got that surplus.

[Translation]

évalué de cette façon, s'élève à environ 26 milliards de dollars en 1986, ou, pour être plus précis, à 24,777 milliards de dollars. Le chiffre a changé depuis lors, mais disons qu'il s'agit de 25 milliards de dollars.

Ce déficit se compose de trois éléments. D'une part, il est important parce que notre taux de chômage est trop élevé et que le rendement de notre économie est nettement inférieur à notre capacité, compte tenu de nos moyens et de la main-d'oeuvre disponible.

Dans le premier graphique de ces trois tableaux, on trouve des prévisions et il est indiqué que, pour l'année civile 1986, près de 8,6 milliards de dollars de déficit pourraient être attribués au rendement économique insuffisant, d'où une diminution des recettes fiscales fédérales et une augmentation des prestations d'assurance-chômage.

Le président: Quel est donc le taux de base pour le chômage?

M. McCracken: Dans cette série précise de calculs, la Banque du Canada a utilisé 6,1 p. 100 environ, semble-t-il. Il ne s'agit pas d'un budget de plein emploi mais plutôt d'un budget qui tient compte des fluctuations cycliques. Il s'agit d'une certaine façon de la moyenne au cours des sept ou huit dernières années.

Le président: Qu'est-ce que le plein emploi, selon vous?

M. McCracken: Je ne laisserais pas le gouvernement en paix tant que le taux de chômage ne tombera pas au-dessous de 4 p. 100.

Le président: Supprimeriez-vous la caisse d'assurance-chômage pour y parvenir?

M. McCracken: Non, je ne pense pas que ce soit utile.

Disons que nous avons donc expliqué l'origine de près de 8,6 milliards de dollars de déficit, à savoir des problèmes économiques dus à un taux de chômage élevé. Le deuxième élément consiste à évaluer les recettes en déduisant le coût des programmes, dans une économie qui fonctionne relativement bien. Autrement dit, si nous déduisons du déficit la partie cyclique et examinons ce qui reste, on s'apercevrait qu'il se compose de deux éléments: une partie concernant les activités directes des gouvernements, les recettes et les dépenses de programmes et l'autre servant à payer l'intérêt sur les dettes actuelles et passées.

C'est cette partie que nous appelons le solde structurel primaire. Le vérificateur général a choisi une définition peut-être plus facile à prendre en l'appelant les recettes moins les coûts des programmes dans une économie à bon rendement. Là encore, on note pour 1986 un petit excédent d'environ 1,4 milliard de dollars dont j'ai parlé plus tôt.

Le président: Vous ne m'avez toujours pas dit comment vous avez obtenu cet excédent.

[Texte]

Mr. McCracken: I calculate it in this way. First I get a cyclically adjusted balance, and I get that by subtracting the cyclical component from the deficit. So I take \$25 billion less \$8.6 billion, which gives me a cyclically adjusted balance of approximately \$16.4 billion. I then look at what the net interest costs of government are, the third panel here, and we note that net interest payments contributed some \$17.6 billion to the federal deficit. I subtract \$17.6 billion of net interest payments—that is, gross interest payments of about—

The Chairman: Then interest payments do not account in the deficit. Is that sort of a surplus?

Mr. McCracken: Interest payments are not counting in this deficit due to discretionary actions of government. They do not have any discretion, at the fiscal house anyway, on a day-to-day basis about what the interest costs will be, and they cannot do anything about the obligations they have accumulated in the past other than to pay.

The Chairman: I see. We do not count that as a deficit at all, is that correct?

Mr. McCracken: You do not count it when you are asking the question: what is the fiscal stance of government; what are they doing on a discretionary basis?

Let me flip it around and suggest to you that we could have a \$4-billion or \$5-billion drop in the deficit if we had nothing happen but interest rates declined several hundred basis points. Would you want to give governments credit for that great performance in that kind of an environment? The answer is that you might but others might not. So, to sort that out, we say: well, let us set that issue aside for the moment and look at what we might call the primary structural balance, and that is of course the one that is in slight surplus.

This does not have the forecast on it, but the information provided by the Department of Finance on June 29, which is also attached to your document, shows this primary structural balance moving from approximately \$1.5 billion in 1987 to significant surplus in 1988, \$9.6 billion; still in surplus, although not quite as much, in 1989, at \$6.5 billion; and then moving to substantially higher levels in 1990 and 1991. This was the forecast provided with their tax reform material in June reflecting phase one of tax reform, although not the recent December changes, nor of course the relatively good performance the Canadian economy has in fact experienced in the last several quarters.

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[Traduction]

M. McCracken: Voici comment je le calcule: tout d'abord, j'obtiens un total qui tient compte des fluctuations cycliques, c'est-à-dire en soustrayant l'élément cyclique du déficit. Je retire donc 8,6 milliards de dollars des 25 milliards de dollars, ce qui me donne un solde ajusté d'environ 16,4 milliards de dollars. Puis je vérifie les frais d'intérêts nets du gouvernement, qui correspondent au troisième graphique de mon tableau, et je remarque qu'ils représentaient près de 17,6 milliards de dollars du déficit fédéral. Je soustrais cette somme des paiements d'intérêts nets—c'est-à-dire les paiements d'intérêts bruts d'environ. . .

Le président: Les paiements d'intérêts ne sont donc pas inclus dans le déficit. Est-ce là une sorte d'excédent?

M. McCracken: Les paiements d'intérêts ne comptent pas dans ce déficit qui est dû aux initiatives discrétionnaires du gouvernement. Il ne peut pas déterminer à combien s'élèveront les frais d'intérêts d'un jour à l'autre, et il ne peut rien faire pour éviter de payer les obligations cumulées par le passé.

Le président: Je vois. Donc, si j'ai bien compris, nous ne comptons pas ces sommes dans le déficit?

M. McCracken: On ne les compte pas lorsque l'on pose la question suivante: quelle est la situation financière du gouvernement? Quelles mesures discrétionnaires prend-il?

Ou bien, si l'on inverse les choses, on peut dire que le déficit diminuerait de 4 milliards de dollars ou de 5 milliards de dollars si la situation restait la même mais que les taux d'intérêts diminuaient de plusieurs centaines de points. Seriez-vous prêt à attribuer d'aussi bons résultats au gouvernement, dans un milieu semblable? Vous peut-être, mais d'autres non. C'est pourquoi, pour résoudre le problème, nous disons: Bien, laissons cela de côté pour le moment et voyons ce que nous appelons le solde structurel primaire, qui, évidemment, est légèrement excédentaire.

Il n'y a pas de prévision à ce sujet, mais d'après les renseignements fournis par le ministère des Finances le 29 juin, qui sont également joints à votre document, on constate que ce solde structurel primaire est passé d'environ 1,5 milliard de dollars en 1987 à un excédent important de 9,6 milliards de dollars en 1988; l'excédent se maintient en 1989, quoique légèrement inférieur, à 6,5 milliards de dollars; puis il augmente considérablement en 1990 et 1991. Telles sont les prévisions que le gouvernement a fourni dans sa documentation sur la réforme fiscale en juin, au sujet de la première étape de la réforme fiscale, même si elle ne tenait pas compte des changements récents survenus en décembre ni, bien entendu, du rendement relativement bon de l'économie canadienne depuis plusieurs trimestres.

M. McCrossan: Monsieur McCracken, je voudrais examiner le rapport entre la politique financière et monétaire aux États-Unis, et passer ensuite au Canada.

Mr. McCrossan: Mr. McCracken, I would like to examine the relationship between fiscal and monetary policy in the States, and then move to Canada.

[Text]

Tax increases, obviously, tend to depress the economy because they remove money from consumers; but to the extent a tax increase leads to lesser demand from the federal borrowing and allows for a reduction in real interest rates, there is an offsetting boost to the economy. The question, then, has to do with the interaction of the effect of possible increases in taxes, which reduce the economic effect, and the possible reduction in real interest rates, which increases it.

One of the proposals in the United States is for a \$5 a barrel oil import fee.

Mr. McCracken: Oil import surcharge.

Mr. McCrossan: Yes, that is right.

This, obviously, has different effects on us. Depending on whether it is with Canada, we are in or out.

Can we look at the U.S. economy, ignoring Canada for a second? If they were to proceed on such a basis, obviously this takes money out of consumers' hands, but it is likely it would produce a major reduction in the deficit—I think some \$30-odd billion—which would presumably lead to a reduction in nominal interest rates, or could provide room for a reduction. What is your estimate of the relative interplay of this? Is it negative, neutral, or positive?

Mr. McCracken: The correct answer is all of the above. It is what the monetary authorities want it to be. We have had experience of rising interest rates when deficits have been coming down, or have been low; and we have had experience of interest rates falling when deficits are rising, in some of the more recent years. It depends on the rules of the game the central bank is following. Particularly in the U.S. it has been alleged that this is a game, a game of chicken, which says that we want to see you become fiscally responsible, and we will keep your feet to the fire through interest rates until you do. If that is the game, and Congress moves with an oil import surcharge that in fact derives significant revenue for them, and the bank does not change the rules, then they should lower interest rates in that environment. But you have been hearing, of course, other possible rules that the central bank might follow. In particular, the one that is popular at the moment is we must resist current expected and possible future inflation at all costs.

What does an oil import surcharge do? It will raise the CPI, not only because of the imported oil effect but also because of its effect on all domestically produced oil. The producers will say, hey, we know what price we want to produce at, and gas, and electricity, and perhaps *Playboy* magazine from the viewpoint of its BTU content.

[Translation]

Les augmentations d'impôts, de toute évidence, ont tendance à déprimer l'économie et à diminuer le pouvoir d'achat des consommateurs; toutefois, dans la mesure où une augmentation d'impôts entraîne une diminution de la demande d'emprunt du gouvernement fédéral et permet une baisse des taux d'intérêt réels, cela relance en même temps l'économie. Il faut donc examiner l'interaction de l'effet d'augmentation des impôts, qui diminue les répercussions économiques, et la baisse éventuelle des taux d'intérêt réels, qui les augmente.

On a proposé, entre autres, aux États-Unis d'établir un droit à l'importation de pétrole de 5\$ le baril.

M. McCracken: Une surtaxe aux importations de pétrole.

M. McCrossan: Oui, c'est exact.

Cela se répercute manifestement de différentes façons sur nous. Tout dépend si cela s'applique ou non au Canada.

Peut-on examiner l'économie américaine en faisant fi un seul instant de l'économie canadienne? Si on procédait de cette façon, cela diminuerait manifestement le pouvoir d'achat des consommateurs, mais cela entraînerait vraisemblablement une importante réduction du déficit—de l'ordre de 30 milliards de dollars—ce qui se solderait sans doute par une baisse des taux d'intérêt nominaux, ou qui du moins permettrait cette baisse. Quelle est, selon vous, l'interaction relative de ces facteurs? Est-elle négative, neutre ou positive?

M. McCracken: En réalité, elle est tout à la fois. C'est ce que souhaitent les responsables de la politique monétaire. Nous avons déjà vu les taux d'intérêt augmenter quand les déficits diminuaient, ou étaient bas; nous avons déjà vu les taux d'intérêt diminuer quand les déficits augmentent, ces dernières années en particulier. Cela dépend des règles du jeu que suit la banque centrale. Aux États-Unis notamment, certains ont prétendu qu'il s'agit d'un jeu de bluff, dans lequel la banque dit au gouvernement qu'il doit devenir responsable du point de vue financier, et tant que ce ne sera pas le cas, elle exercera les pressions nécessaires en jouant sur les taux d'intérêt. Si tel est le jeu, et si le Congrès impose une surtaxe à l'importation de pétrole, qui, en réalité, lui procure d'importantes recettes, et si la banque ne modifie pas les règles du jeu, alors dans ce contexte, elle doit réduire les taux d'intérêt. C'est pourquoi, vous avez évidemment entendu parler d'autres règles que pourrait suivre la banque centrale. Il y en a une qui est particulièrement populaire à l'heure actuelle, selon laquelle nous devons à tout prix résister à l'inflation prévue, tant actuellement qu'à l'avenir.

A quoi sert une surtaxe sur les importations de pétrole? Elle fera augmenter l'IPC, non seulement en raison de l'augmentation du prix du pétrole importé, mais également parce que cela se répercutera sur tout le pétrole produit dans le pays. Les producteurs vont vouloir augmenter leurs prix, et il en ira de même pour le gaz,

[Texte]

So what happens? The authorities see that price shock. How do they react? Oh, we have a problem here. Maybe we had better jack up interest rates. So the problem you may find is if they pursue that rule, you are going to run into not only the weakness in the economy attributable to the fiscal policy but also an increase in at least nominal interest rates and perhaps in real interest rates, depending on how vigorously they pursue their anti-inflation policy.

The problem is there have been lots of bargains or lots of rules of behaviour that have been enunciated by central banks and by fiscal authorities, but the rules change. I think those people who are affected by those rules are becoming more and more skeptical about the delivery on some of these promises. For example, if you get the revenue improvement, will we get the lower real rates?

Mr. McCrossan: We could turn it around in the other direction then.

Mr. McCracken: Sure.

Mr. McCrossan: In the absence of fiscal policy, any change in monetary policy is likely to be reversed by market forces over the intermediate term. If the bank just moves itself the lower interest rates, there can be pressures on the currency itself which lead to ultimate reversals. In your opinion, is it possible for a co-ordinated policy of deficit reduction and real interest rate reduction to stick?

• 1020

Mr. McCracken: Yes, I think it is not only possible, but it is the direction we should be aiming at. What makes it possible, and the thing that is so hard to get through the minds of central bankers and people on monosyllabic street names, is that we have slack resources in this economy and in the U.S. economy. So what makes the difference is the fact that, in the context of the Canadian economy, for example, you are producing some \$30 billion, \$40 billion or \$50 billion more in output per year as a result of running your economy at fuller employment or at full employment with the people you have today, with the capital you have today, with the smarts you have today.

The Chairman: Who says you are running with slack resources? If you want to find a factory space in Mississauga, go ahead.

Mr. McCracken: Mississauga is not Canada.

The Chairman: All right, but the problem is, if you are talking slack resources, yes, there are slack resources, but where are those slack resources?

Mr. McCracken: If it is within our boundaries, it not ought to be beyond our imagination to use it. We can also

[Traduction]

l'électricité, et peut-être aussi la revue *Playboy*, étant donné sa teneur «énergétique».

Que se passe-t-il, dans ces conditions? La banque centrale constate cette augmentation de prix. Comment réagit-elle? Elle se dit: il y a un problème; il aurait peut-être mieux valu augmenter les taux d'intérêt. Donc, si elle suit cette règle, ce qui risque de se passer, c'est que non seulement l'économie va connaître un ralentissement attribuable à la politique financière, mais aussi les taux d'intérêt nominaux vont augmenter, et peut-être aussi les taux d'intérêt réels, selon l'énergie avec laquelle on applique cette politique de lutte contre l'inflation.

Le problème vient de ce que les banques centrales et les autorités financières ont fait toutes sortes de compromis et énoncé toutes sortes de règles de comportement, mais les règles changent. Les personnes visées par ces règles sont de plus en plus sceptiques quant à la suite donnée à certaines de ces promesses. Par exemple, si les recettes fiscales augmentent, les taux d'intérêt réels diminueront-ils?

M. McCrossan: On pourrait donc inverser les choses.

M. McCracken: Bien sûr.

M. McCrossan: En l'absence d'une politique financière, tout changement dans la politique monétaire sera vraisemblablement renversé par les forces du marché, à moyen terme. Si la banque modifie d'elle-même les taux d'intérêt faibles, cela risque de créer des pressions sur la monnaie proprement dite, ce qui aboutira à un revirement de la situation. A votre avis, peut-on maintenir une politique coordonnée de réduction du déficit et de baisse des taux d'intérêt réels?

M. McCracken: Oui, je pense que c'est non seulement possible, mais c'est également l'objectif vers lequel nous devrions tendre. C'est possible—et c'est ce qui est très difficile à faire comprendre aux autorités bancaires centrales et aux gens de la haute finance—grâce aux ressources inutilisées de notre économie et de celles des États-Unis. La différence vient du fait que, dans le cadre de l'économie canadienne par exemple, on produit près de 30 milliards de dollars, 40 milliards de dollars ou 50 milliards de dollars de plus par année parce que l'on favorise le plein emploi de l'économie, grâce aux travailleurs, aux capitaux et aux malins dont on dispose à l'heure actuelle.

Le président: Qui vous dit que nous avons des ressources inutilisées? Si vous voulez trouver un emplacement pour une usine à Mississauga, allez-y.

M. McCracken: Mississauga n'est pas le Canada.

Le président: D'accord, mais vous parlez de ressources inutilisées. Où se trouvent-elles, s'il y en a?

M. McCracken: Si elles se trouvent sur notre territoire, cela ne demande pas une imagination hors du commun

[Text]

build one in about six months, if we have to, if there is any serviced land available.

What I am saying is that this is the key to keep in mind that closes the equation. That is what gives you the additional savings that allow you to not necessarily run up real interest rates in that environment.

Mr. McCrossan: I am pleased to hear your conclusions, and they correspond to my own gut feelings. But you have talked about the ratio of interest service costs to GDP as opposed to the rate of debt to GDP.

Mr. McCracken: No, in my earlier remarks, I hope I was addressing in your mind the stock of debt to GDP ratio. It is only in the decomposition of the deficit that we look at the interest cost part, because that is the flow associated with that stock. But I am aware of the stock to GDP ratio, and that is what I have tried to discuss here in terms of its stabilizing perhaps at a higher level than it is today, but nevertheless stabilizing.

Mr. McCrossan: It appears to me that the level of debt to GDP is not significantly different from where we were at the end of World War II.

Mr. McCracken: Oh, it is about half. At the end of the World War II in Canada, we were about 100%; we are now about 50%.

Mr. McCrossan: Right, which leads to the obvious question: given what the difference is in real interest rates and nominal interest rates in terms of the impact on the federal deficit, does the fact that the real debt relative to GDP is so much less now—or in the same order of magnitude, but still less—not suggest that there is room for a much more accommodative monetary policy without bringing inflation back?

Mr. McCracken: The link between the debt to GDP ratio and inflation is a tenuous one. But there is no question that during the Second World War we were able to accumulate a much larger deficit relative to our economy and to run the debt to GDP ratio up to extremely high heights.

It would be irresponsible of me, though, to suggest that the situations are the same. Real interest rates were extremely low and were in fact purposely held down in the United States and mirrored here as part of the way of controlling the financing costs of the war debt. That is not the situation currently.

The issue is not so much the level of the debt to GDP ratio, but what its dynamics are. At the present time, with real interest rates in this economy substantially greater than our real growth, the arithmetic—and this is not politics; this is arithmetic—is that the debt to GDP ratio

[Translation]

pour les utiliser. Nous pouvons également en construire une en six mois environ, si c'est nécessaire, et s'il existe des terrains viabilisés disponibles.

Ce que je veux dire, c'est que c'est l'élément clé qui termine l'équation et que l'on ne doit pas oublier. C'est ce qui vous procure les économies supplémentaires qui vous permettent de ne pas nécessairement relever les taux d'intérêt réels dans cette situation.

M. McCrossan: Je suis heureux d'entendre vos conclusions car elles rejoignent mes propres convictions profondes. Toutefois, vous avez parlé du rapport entre le service de la dette et le PIB plutôt que du taux d'endettement par rapport au PIB.

McCracken: Non, dans mes remarques précédentes, j'espère que vous avez compris que je parlais du rapport entre la dette et le PIB. Ce n'est que lorsque l'on décompose le déficit que l'on tient compte des frais d'intérêt, car ils représentent le flux lié à cette masse d'endettement. Toutefois, je connais le rapport entre l'endettement et le PIB et je me suis efforcé aujourd'hui d'expliquer qu'il allait se stabiliser, même si c'est à un niveau supérieur à celui d'aujourd'hui.

M. McCrossan: À mon avis, le rapport entre la dette et le PIB n'est guère différent aujourd'hui de ce qu'il était à la fin de la Seconde Guerre mondiale.

M. McCracken: Il est environ deux fois moindre. À la fin de la Seconde Guerre mondiale au Canada, le taux était d'environ 100 p. 100 et il est aujourd'hui de 50 p. 100.

M. McCrossan: Ce qui m'amène à la question évidente: étant donné les répercussions qu'ont sur le déficit fédéral les taux d'intérêt réels et les taux d'intérêt nominaux, puisque l'endettement réel par rapport au PIB est nettement inférieur aujourd'hui—il est toujours important, mais néanmoins inférieur—ne peut-on pas en déduire qu'il est possible d'adopter une politique monétaire beaucoup plus souple sans risquer à nouveau l'inflation?

M. McCracken: Le lien entre le rapport dette-PIB et l'inflation est ténu. Il ne fait aucun doute toutefois que, pendant la Seconde Guerre mondiale, nous avons réussi à accumuler un déficit beaucoup plus important par rapport à notre économie tout en maintenant un rapport endettement-PIB extrêmement élevé.

Il serait insensé de ma part, toutefois, de prétendre que ces deux situations sont identiques. Les taux d'intérêt réels étaient extrêmement bas et on les a en réalité délibérément empêchés d'augmenter aux États-Unis, ce qui s'est reflété dans notre pays dans le cadre des mesures visant à contrôler le service de la dette de guerre. Ce n'est pas la même chose à l'heure actuelle.

Ce n'est pas tant le ratio entre la dette et le PIB qui importe, mais plutôt ce qui le motive. À l'heure actuelle, où les taux d'intérêt réels sont considérablement plus élevés que notre taux de croissance réel, si l'on procède à un simple calcul arithmétique—et il ne s'agit pas là de

[Texte]

will continue to rise at an explosive rate unless you are running what we call a primary surplus; that is, you must have more revenue than your program costs.

If you are not operating in that world—and we were not operating in that world from 1945 to 1980-81—then you are in a much different position. Then you are stable. The debt to GDP ratio will stabilize. You may not like the level, but you can be running a primary deficit and still have a stable debt to GDP ratio. It will not get out of hand.

• 1025

The condition, again, I repeat: real growth greater than the real interest rate. Since 1981, however, we have not been in that position, and that is the problem. If you think it is going to stay that way, then we are all in real trouble. If you think it is going to change, or if as a matter of deliberate policy you want to change it, then you take care of your stability problems, plus you also help real growth, etc.

Mr. McCrossan: If it is desirable for the bank to take steps to reduce both the real and nominal interest rates, which you have suggested, that has to be accepted in the marketplace to stick, and you have suggested one of the things we might do is to look at index-linked securities.

We have a rather miserable experiment right now with index-linked mortgages, where we are issuing, I think, between \$200 million and \$400 million, primarily to pension funds. The market is commanding a premium of close to 5%, whereas historically a premium of 3%, 3.5% might be more reasonable.

Now, the question is: If the market is commanding that sort of premium at this point in time, what scope does the bank have to push down nominal interest rates without having the market react in fairly short order to push them back up again?

Mr. McCracken: You could come in at a real interest rate instrument in Canada now that is yielding 5% plus, and that is telling us that real interest rates are 5% plus, and then that confirms my comment earlier that real interest rates are too damn high.

Now, the question is: Can you do anything about it?

Mr. McCrossan: Right. That is my question.

Mr. McCracken: That is where I think the going gets difficult. It is, I think, presumed, or at least assumed, that if the Federal Reserve Bank wanted to lower interest rates, they could. In that environment, it is not unlikely that Canada could also move in that same direction.

What is much more difficult for some to conceive of is whether the Bank of Canada can independently move to

[Traduction]

politique, mais bien d'arithmétique—on constate que ce ratio va continuer à augmenter à un rythme démesuré à moins de disposer de ce que nous appelons un excédent primaire; autrement dit, les recettes doivent être supérieures aux dépenses de programmes.

Si l'on n'évolue pas dans cette conjoncture—et ce n'était pas le cas de 1945 à 1980-1981—on se trouve alors dans une situation bien différente. L'économie est stable. Le rapport entre la dette et le PIB va se stabiliser. Le taux ne sera peut-être pas entièrement satisfaisant, mais l'on peut très bien, malgré un déficit primaire, avoir un rapport dette-PIB stable qui n'atteint pas des proportions exorbitantes.

La condition, je le répète, est que le taux de croissance réel soit supérieur au taux d'intérêt réel. Depuis 1981, toutefois, cela n'est pas le cas dans notre pays et c'est là le problème. Si vous pensez que la situation doit rester la même, eh bien nous sommes tous dans le pétrin. Si vous pensez qu'elle va changer, ou si vous essayez de la modifier par principe, alors vous résolvez vos problèmes de stabilité, tout en favorisant la croissance réelle, et ainsi de suite.

M. McCrossan: S'il est souhaitable que la banque prenne des mesures pour réduire les taux d'intérêt nominaux et réels, comme vous l'avez dit, cela doit être compatible avec le marché, et vous avez signalé que nous pourrions, entre autres, examiner les valeurs indexées.

L'expérience n'est guère concluante actuellement avec les hypothèques indexées, où nous versons de 200 à 400 millions de dollars essentiellement à des fonds de pension. Le marché exige une prime de près de 5 p. 100, tandis que traditionnellement, une prime de 3 ou 3.5 p. 100 serait plus justifiée.

Voici ce qu'il faut se demander. Si le marché exige une telle prime à l'heure actuelle, quel moyen la banque a-t-elle pour réduire les taux d'intérêt nominaux tout en évitant que le marché réagisse rapidement pour les faire augmenter à nouveau.

M. McCracken: Dans certains cas, au Canada, les taux d'intérêt réels sont égaux ou supérieurs à 5 p. 100, ce qui confirme qu'ils sont beaucoup trop élevés, comme je l'ai dit plus tôt.

La question est de savoir si l'on peut faire quelque chose pour y remédier?

M. McCrossan: D'accord. C'est ma question.

M. McCracken: C'est là que les choses se gâtent. On part du principe, je pense, que, si la banque fédérale américaine voulait réduire les taux d'intérêt, elle pourrait le faire. Si c'était le cas, le Canada pourrait vraisemblablement prendre des mesures dans le même sens.

Ce qu'il est beaucoup plus difficile de concevoir, c'est si la banque du Canada peut de son propre chef décider

[Text]

lower interest rates. It is often thrown up that, no, of course that is not possible, and it is not possible because of the close linkages between economies. Then they will usually trot out and give you a picture that says: Look at how close interest rates have been between the United States and Canada for the last 10, 15 years. Now, all that says to me is: Sure they are close, because you have been following a rule that says you want to keep my interest rates close to the United States. That is not any proof or disproof of your independent ability to move. All it is saying is that you just did not do it.

Mr. McCrossan: You are arguing that a better model is France and Germany.

Mr. McCracken: Or the United States itself at the moment in terms of. . . I mean, if you really believe the international financial model and we are all in bed together, then you have to scratch your head and say: Well, wait a minute, I do see different real rate patterns; I do, of course, see these mirrored in exchange rates.

That is where in the Canadian context the bind comes, because implicitly, when Mr. Crow says he cannot move interest rates independently, I would suggest there is an aside—without affecting the value of the dollar or without jeopardizing the inflation rate because of a depreciation.

That is not clearly enunciated, but that is, I believe, the reason he feels a certain lack of independence, or of course at the present time, perhaps since he says to you the exchange rate does not matter, and it is not something he has any target values for—not that it does not matter but he has no target values for it—then perhaps he is setting his interest rates according to some other set of rules.

However, I think we can do it. It may mean that exchange rates change. Why we should be scared of that, when we have observed 50% and 80% swings, up and down, of various currencies over the last several years, and feel it is crucial that we stay as close as possible to this eagle or United States dollar, is beyond me. I think we are giving up a lot of independence as a result of that.

• 1030

Mr. Cassidy: Mr. McCracken, I find some of your views refreshing compared to what we hear from time to time from the governor and from the Minister of Finance. However, you will have noticed as well that there is a certain schismatic heresy demonstrated by Mr. McCrossan, that even among the Conservatives there was a spectrum of opinion. What he is saying is that thinking Conservatives advocate NDP policies, and I am quite prepared to—

The Chairman: We will give you enough information so that you might begin to talk sensibly.

[Translation]

de réduire les taux d'intérêt. Certains vous répondent souvent que c'est impossible, étant donné les liens étroits entre l'économie des deux pays. Puis, dans le même souffle, ils vous peignent un tableau en disant: voyez comme les taux d'intérêt en vigueur aux États-Unis et au Canada sont proches depuis dix ou quinze ans: or, cela signifie une seule chose à mes yeux: ils sont proches, évidemment, puisque vous avez imposé des règles selon lesquelles mes taux d'intérêt devaient rester proches de ceux des États-Unis. Cela ne prouve en aucun cas si vous êtes ou non en mesure d'agir indépendamment. Cela prouve tout simplement que vous ne l'avez pas fait.

M. McCrossan: Donc selon vous, la France et l'Allemagne constituent un meilleur modèle.

M. McCracken: Ou les États-Unis pour le moment en ce qui concerne. . . Je veux dire, si l'on s'aligne vraiment sur le modèle financier international et si nous entretenons tous des liens étroits, il y a lieu de s'interroger en disant: attendez un peu, les taux n'évoluent pas de la même façon; bien entendu, ces fluctuations se reflètent dans les taux de change.

C'est sur ce plan que le lien est créé dans le contexte canadien, car, de façon implicite, quand M. Crow dit qu'il ne peut pas modifier tout seul les taux d'intérêt, je pense qu'il veut dire sans influencer sur la valeur du dollar ou sans menacer le taux d'inflation à cause d'une dévaluation.

Cette condition n'est pas clairement énoncée, mais c'est pourquoi, d'après moi, il a l'impression d'avoir les mains liées, puisqu'il prétend que le taux de change n'a pas d'importance, et qu'il n'a établi aucun objectif à cet égard—ce n'est pas qu'il s'en moque, mais il n'a fixé aucun objectif—alors peut-être fixe-t-il ces taux d'intérêt en suivant une autre série de règles.

Cependant, je pense que c'est possible, mais cela risque d'influer sur les taux de change. Je n'arrive pas à comprendre pourquoi cela nous fait peur, alors que diverses monnaies ont connu ces dernières années des fluctuations de 50 p. 100 et de 80 p. 100, à la hausse et à la baisse, et pourquoi nous estimons qu'il est essentiel d'aligner au maximum notre monnaie sur le dollar américain. Nous renonçons, ce faisant, à une bonne partie de notre indépendance.

M. Cassidy: Monsieur McCracken, vos remarques sont assez réconfortantes, par rapport à celles que font à l'occasion le gouverneur et le ministre des Finances. Cependant, vous avez dû remarquer également qu'il existe une certaine hérésie schismatique dont M. McCrossan est la preuve vivante, et que, même parmi les Conservateurs, les opinions divergent. Selon lui, les Conservateurs rationnels préconisent des politiques néo-démocrates et je suis tout à fait disposé à. . .

Le président: Nous vous renseignerons suffisamment pour vous permettre de tenir des propos sensés.

[Texte]

Mr. McCrossan: Maybe we should ask Mr. McCracken to talk about free trade.

The Chairman: These guys will come to that yet.

Mr. Cassidy: I want to confirm a couple of points before getting to the question of monetary policy, which I think is essential to your presentation and to the questions that I want to raise.

In terms of your modelling, you indicate that for 1988 there is probably going to be slower growth. You suggest about 2%, fourth quarter to fourth quarter, as opposed to the annual rates that were up to about 6% in early 1987 and around 4% of annual rates in the second half of the year. You also suggest, as did the Economic Council of Canada, that the level of unemployment we reached in December was in fact lower than what we are going to see during the course of 1988. Now, I would assume that if you anticipate an annual average rate of 8.4% in 1988, that we are actually going to see something higher than that towards the end of the year. I wonder if you can give me some indication as to what your forecasts show.

Mr. McCracken: We do not forecast by month or by quarter, but it would not surprise me to see 7% or 8% being obtained at least on several months' occasion. You are quite right of course, again arithmetic and nothing else says that you have to have some numbers above the average if you start off with some below it. We will see of course in a few days what the unemployment rate for January is. If it in fact continues to drop, then it is going to show either that we are completely wrong or that a further upswing will occur.

In 1990 we are again running in the 8.50%, 8.6% range, so it suggests at least that there is not a major deterioration in the unemployment rate as we experienced, say, in 1982.

Mr. Cassidy: It is not a major consideration, nor a major amelioration either.

Mr. McCracken: No. I find from 8% up it is moving in the wrong direction. This means that we have given up one year in terms of this rather gradual process we have been employing to get the unemployment rate back down to some more reasonable levels.

Mr. Cassidy: I note that in your submission you indicate that the perils of forecasting in the current environment are perhaps even greater than they would normally be. You put upside and downside scenarios and you counsel us that you cannot accurately forecast the future, you can only try. But I think what you are saying as well is that to some extent we are working in a very difficult environment.

Mr. McCracken: We always are. If you go back to 1980, even we said something with confidence. . . look at what happened, to show the perils of forecasting. I think we should all be humble, in terms of that exercise. At the same time, it is a useful exercise because it does give you

[Traduction]

M. McCrossan: Nous devrions peut-être demander à M. McCracken ce qu'il pense du libre-échange.

Le président: C'est une idée fixe.

M. Cassidy: Je tiens à confirmer une ou deux choses avant d'aborder la question de la politique monétaire, ce qui est indispensable tant pour votre exposé que pour les questions que je voudrais soulever.

En ce qui concerne le modèle que vous avez établi, vous dites qu'en 1988, le taux de croissance va sans doute ralentir. Vous parlez de 2 p. 100 environ, entre le dernier trimestre de l'an dernier et celui de cette année, par rapport au taux annuel d'environ 6 p. 100 que nous avons connu au début de 1987 et de près de 4 p. 100 pour la deuxième moitié de l'année. Vous dites aussi, comme l'a fait le Conseil économique du Canada, que, pendant l'année 1988, le taux de chômage sera supérieur à celui que nous avons connu en décembre dernier. Or, je suppose que si vous prévoyez un taux moyen de 8,4 p. 100 par an pour 1988, il risque d'être plus élevé vers la fin de l'année. Pouvez-vous me dire quelles sont vos prévisions à cet égard.

M. McCracken: Nous ne faisons pas de prévision par mois ou par trimestre, mais je ne serais pas surpris que le taux tombe à 7 p. 100 ou 8 p. 100 pendant plusieurs mois. Vous avez raison de dire—et là encore, c'est un simple calcul arithmétique—que le taux sera parfois supérieur à la moyenne, s'il est inférieur à celle-ci pour commencer. Nous connaissons dans quelques jours le taux de chômage du mois de janvier. S'il continue à baisser, cela prouvera ou bien que nous nous sommes entièrement trompés ou qu'il va augmenter sensiblement à nouveau.

En 1990, nous prévoyons à nouveau un taux de l'ordre de 8,5 à 8,6 p. 100, ce qui prouve que la situation ne va pas se détériorer comme en 1982, disons.

M. Cassidy: Ce n'est ni un facteur important, ni une amélioration sensible.

M. McCracken: Non. Le taux de chômage ne devrait pas augmenter au-delà de 8 p. 100. Cela signifie que nous avons perdu un an dans ce processus graduel auquel nous avons eu recours pour ramener le taux de chômage à un niveau plus raisonnable.

M. Cassidy: Je remarque que, dans votre mémoire, vous dites que, étant donné la conjoncture actuelle, les prévisions sont plus risquées qu'en temps normal. Vous prévoyez des augmentations et des diminutions et vous nous dites qu'il est impossible de prévoir l'avenir avec exactitude, que l'on peut seulement essayer de le faire. Ce que vous nous dites également, c'est que, dans une certaine mesure, la conjoncture économique est très complexe.

M. McCracken: C'est toujours le cas. Si vous remontez à 1980, même si nous avons annoncé quelque chose en toute confiance. . . voyez ce qui s'est passé, cela prouve que la prévision est risquée. Nous devrions tous faire preuve d'humilité à cet égard. En même temps, c'est un

[Text]

some idea of the futurity of present decisions, as Mr. Drucker calls it. Here is what is going to happen based on what you have done so far, guys. Now, if you do not like it, plan on changing. Of course if new events occur—if there is a major drop in oil prices, a major rise in oil prices, a major drought—they can have an additional effect on your outlook. But it is I think useful.

Mr. Cassidy: Then let me come back to the question of unemployment. You suggest, and this was also a suggestion made by the Economic Council, that the rates of growth in Ontario and Quebec will be slightly above the Canadian average and therefore that other regions will have growth somewhat less than that of central Canada in 1988. From that one can conclude that the disparities will continue between the regions and the real depression levels of unemployment, which are upwards of 10%, that we currently find in Atlantic Canada, in the far western provinces and parts of Quebec, are going to stay with us, too, in 1988. Is that correct?

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Mr. McCracken: That is correct. I would point out that not all provinces are necessarily going to do worse than Quebec and Ontario. I think Saskatchewan and Alberta are finally due, we hope, for a bit of positive growth after a rather abysmal performance for several years, so the gap may not get any larger there. Of course, in some cases, depending on your measure, the gap remains in the other direction, for example, with Alberta exceeding real income levels in Quebec and perhaps still in Ontario.

B.C. though will move significantly wider as perhaps will P.E.I. It looks like the gap stays about the same in Newfoundland. But there is no significant narrowing. The same pattern is true not only in 1988, but would also persist in 1989 and 1991.

Mr. Cassidy: I would like to ask you now about monetary policy. You assumed your career plans have changed a little bit. The fluidity of politics has in fact imposed itself. As we all know, anything can happen in the next election, and you are sitting down, as Minister of Finance, for your first meeting with the Governor of the Bank of Canada and you are committed to the program you outlined on page 6, including the need to bring interest rates down by 1% or 2%.

Since he has said it a number of times in public, I anticipate the private conversation where Governor Crow says to you, Minister, I think your ideas are very interesting. . . I am afraid I do not agree with them and if you give me a directive in that direction for monetary policy, I shall resign. What do you do then?

[Translation]

exercice utile, car il vous donne une idée de ce que pourraient donner les décisions actuelles, comme le dit M. Drucker. Voilà ce qui va se passer en fonction de ce que vous avez fait jusqu'ici. Si vous n'aimez pas cela, prévoyez des changements. Bien entendu, si de nouveaux événements surgissent—si les prix du pétrole enregistrent une forte hausse ou une baisse importante, si la sécheresse sévit—ils peuvent influencer également sur vos perspectives. Toutefois, c'est un exercice utile, à mon avis.

M. Cassidy: Je voudrais revenir sur la question du chômage. Vous dites, et cette opinion a également été exprimée par le Conseil économique, que le taux de croissance en Ontario et au Québec sera légèrement supérieur à la moyenne canadienne et que, par conséquent, le taux de croissance d'autres régions sera légèrement inférieur à celui du centre du pays en 1988. On peut en conclure que les disparités régionales se maintiendront en 1988 et que le taux de chômage continuera à être exorbitant dans la région de l'Atlantique, dans les provinces de l'Ouest et dans certaines parties du Québec, où il est actuellement supérieur à 10 p. 100. N'est-ce pas?

M. McCracken: C'est exact. Je signale que toutes les provinces ne s'en tireront pas nécessairement moins bien que le Québec et l'Ontario. Je pense, du moins nous espérons, que c'est au tour de la Saskatchewan et de l'Alberta de connaître une certaine croissance positive après plusieurs années noires, de sorte que l'écart ne s'agrandira peut-être pas là. Bien entendu, dans certains cas, selon les mesures qu'on emploie, les écarts existant dans d'autres domaines persistent, comme par exemple le niveau du revenu réel de l'Alberta qui continuera de dépasser celui du Québec et peut-être encore de l'Ontario.

Toutefois, l'écart avec la Colombie-Britannique s'agrandira beaucoup comme celui avec l'Île-du-Prince-Édouard. Il semble qu'il demeurera à peu près le même à Terre-Neuve. Mais il n'y a pas de réduction notable. La même chose se répétera non seulement en 1988, mais aussi en 1989 et 1991.

M. Cassidy: J'aimerais maintenant passer à la politique monétaire. Vous avez quelque peu modifié vos projets de carrière en tenant compte de l'instabilité de la scène politique. Comme nous le savons tous, n'importe quoi peut arriver lors des prochaines élections. Supposons que le nouveau ministre des Finances rencontre pour la première fois le gouverneur de la Banque du Canada et qu'il veuille mener à bien le programme que vous décrivez à la page 6, notamment une baisse de 1 à 2 p. 100 du taux d'intérêt.

Étant donné qu'il l'a déjà dit en public, je suppose que le gouverneur Crow pourrait répondre à ce ministre que ses idées sont fort intéressantes, mais qu'il n'est pas d'accord avec elles et qu'il remettra sa démission si jamais on lui demande par directive d'orienter en ce sens la politique monétaire. Que fait-on alors?

[Texte]

Mr. McCracken: You certainly draft the directive, give it to him, tell him to take a look at it, tell him to come back to see you in about a week, and see what happens. If you are as reasonable, or the future Minister of Finance is as reasonable as your hypothetical one or as my very modest suggestions here would be, the central banker would come back and say he thinks they can pull this off. If he does not, given that you are a new Minister of Finance—the world is uncertain out there, people are looking to get some sense of your starch, they are trying to understand what the rules of the game are now—make it a little more difficult for him, get a new governor. Then both of you, as a team, can perhaps get on with it.

Mr. Cassidy: When Governor Bouey took this stance after the government gave itself powers to issue directives to the bank, essentially what he was doing—and I do not think it was appropriate in a democratic society for the Bank of Canada to take that stance—was to say, we do not care what you did in the law, we are going to thumb our noses at you because the threat of resignation of the governor of the bank is sufficiently strong that you will not be able to issue a directive. You are essentially suggesting that it is for the will of Parliament and on a government to prevail, that you have to be prepared to just face up to that and say, I am sorry, this does not wash anymore, you cannot do it.

Mr. McCracken: That is right. We have more flexibility than the U.S. system and we ought to take advantage of it. The U.S. system has a federal reserve governor or head appointed for a fixed period of time. They cannot get rid of him. They can try to attract him to something else. They can certainly urge him, but they are not in the position that we are, where at least there is a flexibility of a change in policy. So I think that is a plus for us. It should allow the Minister of Finance to ensure that at least the governor of the bank shows up for his weekly meetings.

I think the reason the Bank of Canada has taken this position... this occurred almost from day one, it was earlier than Mr. Bouey. I think it was Mr. Rasminsky who took this particular stance and it has been grasped to the bosom.

Mr. Cassidy: They pass on a little envelope as they change governors.

Mr. McCracken: Sure. But that, of course, is to try to ensure that there is a perception in the public of independence.

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[Traduction]

M. McCracken: Le ministre rédige sa directive, la lui remet, lui dit de l'étudier et de revenir le voir dans environ une semaine et attend les résultats. Si ce futur ministre des Finances est un homme raisonnable comme vous et moi le pensons, le banquier reviendrait lui dire qu'il y a moyen de faire ce qu'il demande. Autrement, étant donné qu'il s'agit d'un nouveau ministre des Finances—il y a de l'incertitude, on attend de savoir de quoi il est fait, on cherche à comprendre les nouvelles règles du jeu—il devrait trouver un nouveau gouverneur. Cette nouvelle équipe pourra peut-être alors s'atteler à la tâche.

M. Cassidy: Lorsque le gouvernement s'est donné le pouvoir de donner des directives à la banque, le gouverneur Bouey avait pris pour position—position qui ne me semble pas acceptable dans une société démocratique—de ne pas tenir compte des changements apportés à la loi étant donné qu'il suffisait au gouverneur de la banque de menacer de donner sa démission pour empêcher le gouvernement d'émettre de telles directives. Vous dites en substance que la volonté du Parlement et du gouvernement doit prévaloir, et que le ministre doit être prêt à opposer son veto à une mesure de la banque.

M. McCracken: C'est exact. Notre système offre plus de souplesse que le système américain, et nous devrions en profiter. Aux États-Unis, un gouverneur ou chef de la réserve fédérale est nommé pour une période de temps déterminée à titre inamovible. On ne peut s'en débarrasser, seulement l'attirer vers autre chose. On peut certainement exercer des pressions sur lui, mais il est impossible de changer sa politique comme nous pouvons le faire. C'est donc un avantage pour nous. Cela devrait au moins permettre au ministre des Finances de s'assurer la présence du gouverneur de la banque aux réunions hebdomadaires.

La Banque du Canada a adopté cette position dès le premier jour, avant M. Bouey. Je crois que c'était M. Rasminsky qui a pris cette attitude et en a imprégné cette institution.

M. Cassidy: Une petite enveloppe passe des mains du gouverneur sortant au nouveau gouverneur.

M. McCracken: Certes. Mais c'est pour assurer que le public perçoit la banque comme un organisme indépendant.

Donc, contrairement à ce qui se passe aux États-Unis, il existe une coordination quotidienne. En pratique, le gouverneur se dit que, s'il ne peut convaincre le ministre des Finances de son point de vue, ou vice versa, alors qu'ils se réunissent et se consultent fréquemment et qu'ils se fondent sur la même base de données, c'est qu'il y a alors un problème réel et qu'il n'a d'autre choix que de

I think, unlike in the United States, from the comments I read to you earlier, there is that day-to-day coordination. I think in a practical sense the governor is saying, look, if I cannot convince the Minister of Finance of the right policy, or he cannot convince me, when we sit down and talk eyeball to eyeball on a frequent basis, where we have a common information base, then there is

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a real problem, and in that environment I have no choice, if he feels the need to direct me, but to tender my resignation. I think that is actually a good principle to have in place, because it does give you a way of making a significant change.

If you want something different, for different purposes there are other approaches. In particular, there are some who would like Mike Wilson, for example, to be answerable in the House for the conduct of monetary policy on a day-by-day basis. That is possible. It would require a slight change. I suggested this, and as you might not be surprised to learn, it was not met with overwhelming acceptance. It would be to ask or require in the next Bank Act revision that the governor and the Minister of Finance actually write down what their objectives for monetary policy are and what the rules of the game are and post those publicly, so we know, so we can judge, what they are doing, and to do so at least once a year—and if they change their minds, to do so at least within a week or two of that change.

That changes the balances slightly, you see, and puts the Minister of Finance in another position.

The Chairman: They put a notice in the paper about their change and what they are making the exchange rate to be—

Mr. McCracken: Sure. Why not?

The Chairman: —and they advertise the interest rates and that sort of thing.

Mr. McCracken: What people want to know is what the rules are. You get your power, as a central bank, by people knowing your rules. You get them in two ways. You can have them discover them by a process of getting burned a few times and coming over and finding out they can make a buck this way, so they start looking at M1 numbers or GDP numbers or the price of hogs. Or you can tell them what it is they should be looking at and tell them if they deviate from that they run the risk of losing money.

The people in the financial community are not wizards. They are people who want to make a buck. The way they make a buck is by knowing what the rules are and how the conduct of monetary policy is going to affect them. The only profitable speculation in that kind of an environment is one that is stabilizing—that is, to be on their sides. So if the rule of the bank is that when M1 goes up we are going to make it go down by raising interest rates, they are telling people in the financial community they can make a buck by watching M1, and when they see it go up, they can make a buck by at that time assuming and acting as if interest rates are going to go up.

If you want to run by a different set of rules, it will take them about a day to figure out that new set of rules, maybe a week in some circles, but that is it. Then you can run it according to a different set of rules. For example, the rules I would suggest would be ones where you have real interest rates and say our objective is to have a real

[Translation]

remettre sa démission si le ministre veut aller jusqu'à émettre une directive. Je trouve que c'est un principe approprié car on peut ainsi apporter des changements importants.

Il y a d'autres possibilités si l'on recherche autre chose. Par exemple, d'aucuns aimeraient que Mike Wilson, par exemple, ait à rendre compte quotidiennement à la Chambre de la conduite de la politique monétaire. C'est possible. Il faudrait apporter un changement mineur. J'en ai fait la suggestion, et vous ne serez pas étonnés d'apprendre qu'elle n'a pas suscité beaucoup d'enthousiasme. Lors de la prochaine révision de la Loi sur les banques, on exigerait que le gouverneur et le ministre des Finances énoncent publiquement et au moins une fois par année leurs objectifs et les règles du jeu en matière de politique monétaire afin que nous soyons mis au courant et que nous puissions en juger—et qu'en cas de changement, ils le fassent connaître publiquement dans la semaine ou les deux semaines qui suivent.

Cela changerait légèrement la situation et placerait le ministre des Finances dans une autre position.

Le président: Ils annonceraient ce changement dans le journal ainsi que le nouveau taux de change. . .

M. McCracken: Certainement, pourquoi pas?

Le président: . . . les taux d'intérêt, etc.

M. McCracken: Les gens veulent connaître les règles du jeu. Une banque centrale acquiert un certain pouvoir lorsque les gens connaissent ses règles. On peut y arriver de deux façons. On peut les laisser faire leurs propres erreurs quelquefois pour découvrir finalement qu'ils doivent se fonder sur les chiffres de M1, du PIB ou sur le prix du porc. Ou on peut leur dire quels indicateurs ils doivent utiliser et qu'ils risquent de perdre de l'argent s'ils s'en écartent.

Les milieux financiers ne sont pas composés de magiciens, mais de gens qui veulent faire de l'argent. Et ils en feront en connaissant les règles et les effets de la politique monétaire. La seule façon d'éviter une spéculation induite dans ce genre d'environnement est d'avoir un effet stabilisateur. Par conséquent, si la banque indique qu'elle contraindra toute progression de M1 en haussant les taux d'intérêt, le milieu financier saura qu'il peut faire de l'argent en surveillant M1 et en supposant que les taux d'intérêt vont monter quand ce dernier agrégat progresse.

Si la banque change sa façon de procéder, il faudra un jour ou peut-être une semaine aux milieux financiers pour l'analyser, mais c'est tout. On peut alors suivre une ligne de conduite différente. Par exemple, d'après moi, la banque devrait avoir pour objectif un taux d'intérêt réel qui se rapproche du taux de croissance réel de l'économie

[Texte]

interest rate that is approximately the same as the real growth of the economy, or the potential of the economy. If that is 2.5% or 3%, and if real rates are 5%, you are telling him you can make a buck by betting we are going to drive those real rates of 5% towards 3%.

Mr. Cassidy: But let us say you are still the Minister of Finance and you are in this scenario. To bring interest rates down, the bank uses the usual sort of instruments of monetary policy. But if the bank were driven to that by a directive, or if the governor resigned and the deputy governor stepped in while a new governor was being sought, and this policy were carried out, what are the downside risks in terms of either a kind of central bankers' reaction against Canada or a money-market reaction against Canada, or alternately, an overall reaction against Canada, for taking a fairly sharp difference in stance from what was done before? Do you see that as being so potentially damaging that it would inhibit the kind of policy you put forward here from being implemented?

Mr. McCracken: No, I do not. You obviously do some things. You make sure you have your next governor ready before you fire the one you have, so there is no gap or long, drawn-out search process or anything else.

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Given that you moved decisively, again I underline that the financial community's first question will be about how to make a buck in this new environment. They will want to know about your changes in rules. They will not be giving you a hard time by saying that what the past government was doing was really what they believed in and that this new stuff is not what they believe in. I just do not believe that is credible.

I am presuming you are not going to go out and do silly things. I presume that if we find we are at full potential and if inflation is heating up, you will have no hesitation in reining in a monetary policy to cool the economy down, as well as fiscal policy. But we are not there yet.

I would think it might even cause some people abroad to dust off their portfolio in Canada and to have another look at it, but that is not necessarily bad. They may find they like it.

The Chairman: I would like to move on and let some other people on here, if you do not mind. Mary Collins.

Mr. Cassidy: I would appreciate one more short round.

The Chairman: I will do one at the end of the others. Mary.

Mrs. Collins: Thank you. Just to start off with a somewhat philosophical question, I have always wondered, in terms of economic forecasters, whether as a result of their forecasts actions are taken through the

[Traduction]

ou de son potentiel. Si ce taux s'établit à 2.5 p. 100 ou à 3 p. 100, et que le taux réel atteint 5 p. 100, l'investisseur pourra alors s'attendre à ce que ce taux réel soit ramené de 5 p. 100 à 3 p. 100.

M. Cassidy: Mais disons que vous êtes ministre des Finances et que vous vous trouvez devant le scénario suivant. Pour faire baisser les taux d'intérêt, la banque a recours à ses instruments monétaires habituels. Mais si la banque y était obligée par une directive ou si le gouverneur démissionnait et que le gouverneur adjoint assumait ses responsabilités pendant qu'on lui cherche un remplaçant et que cette politique était suivie, quels seraient les risques du point de vue d'une réaction des banques centrales des autres pays ou du marché financier contre le Canada ou même, une réaction générale contre le Canada pour avoir changé radicalement sa façon de procéder? D'après vous, les risques seraient-ils tellement grands qu'ils empêcheraient la mise en oeuvre de ce genre de politique?

M. McCracken: Non, je ne crois pas. Il faut faire certaines choses évidemment. Il faut être sûr de choisir un nouveau gouverneur avant de laisser partir celui qu'on a afin d'éviter toute interruption de ce genre.

Pourvu que la décision soit ferme, je souligne à nouveau que les milieux financiers s'intéresseront en premier lieu à la façon de profiter du nouvel environnement. Ils voudront connaître les nouvelles règles. Ils ne s'attarderont pas à ressasser les vertus de l'ancien gouvernement et à critiquer l'orientation du nouveau. Cela ne se passe pas ainsi.

Je tiens pour acquis que le nouveau gouvernement n'agira pas de façon stupide. Je suppose que, si l'économie avance à plein régime et qu'elle entraîne une poussée inflationniste, il n'aura aucune hésitation à utiliser la politique monétaire comme la politique financière, pour ralentir les choses. Mais nous n'en sommes pas là.

Je suppose aussi que les investisseurs étrangers viendront dépoussiérer leur portefeuille canadien, mais ce n'est pas nécessairement une mauvaise chose. Ils seront peut-être heureux de ce qu'ils trouveront.

Le président: Je voudrais donner la chance à d'autres membres si vous n'y voyez pas d'inconvénient. Mary Collins.

M. Cassidy: J'aimerais avoir un autre petit tour.

Le président: Il y en aura un lorsque tout le monde aura parlé. Mary.

Mme Collins: Merci. Pour aborder la question d'un point de vue plus philosophique, je me suis toujours demandé si les prévisions conjoncturelles ne portaient pas les secteurs publics et privés à agir justement dans le sens

[Text]

public and private sector, which then fulfil those forecasts—the cause and effect relationship. Do you have a view on this?

Mr. McCracken: It is something we do worry about. There have been a number of theoretical articles on it. The first question we worry about is whether they are self-fulfilling or self-defeating. The other possibility is that when you forecast a particular situation, when people see it they purposely avoid it and you are wrong. I guess we have probably had more examples of that having happened than the confirming view.

I can recall in the mid-1970s that a very weak housing forecast was put out by ourselves and several others, a result of which was a response by governments to do something about housing. The consequence of it was that housing starts were a lot higher than what we had forecast. The question we had to ask ourselves was whether we were wrong in our forecasts or not. We found it still useful to have made the forecast.

I think you get protection as a person and the dynamics of this become a little bit different when you first recognize there are many different forecasters out there, some with formal models, some with armchairs, some with various forms of biases, etc. It is hard to have a dominant forecast, even if you are the Department of Finance. There will be some who will be skeptical about it or have a different view. As long as there are different views, you probably do not run into a major problem.

There is no question that if the Department of Finance or the Bank of Canada thinks X is going to happen and takes certain steps, then, sure enough, you can create problems. Or they can be, as you say, perhaps self-fulfilling.

I recommend to you this series of three articles by William Greider in which he goes over, blow by blow, the history of U.S. monetary policy. He points out, for example, how in early 1982 the economists at the Federal Reserve Bank in Washington told the governor not to worry because it was going to recover next month. So they kept hitting the inflation concern and they kept jacking up the interest rates. It did not recover. They came back in and said it would recover next month. This went on until they had managed to create the worst recession in the postwar period.

In this particular case, optimistic forecasts led not to an optimistic outcome but to the application of pressure in a way that made the drop much worse than it otherwise would have been. In this case, you have an example of a destabilizing element from the forecast.

We think expectations are formed on the basis of forecasts; some might argue they are forecasts. Real expectations about the performance of the economy are more likely to be self-fulfilling. For example, if it is viewed that real economic growth will expand at 5% a year over the next five years, it leads to a set of actions on

[Translation]

de ces prévisions—il y aurait un rapport de cause à effet. Avez-vous une opinion là-dessus?

M. McCracken: C'est un aspect dont nous nous préoccupons. Un certain nombre d'articles ont été publiés sur le sujet. Nous nous demandons tout d'abord si les prévisions entraînent le résultat prévu ou le résultat contraire. En effet, lorsqu'on prévoit que quelque chose va se passer, on pousse les gens à agir de façon contraire et on se retrouve finalement dans l'erreur. Je pense que c'est plus souvent ce qui s'est produit que le contraire.

Je me souviens qu'au milieu des années 1970, comme d'autres sociétés, nous avions prévu un fort ralentissement du secteur de l'habitation, ce qui avait porté les gouvernements à s'occuper du problème. Il est donc arrivé que les mises en chantier ont été beaucoup plus nombreuses que nous l'avions prévu. Nous avons dû nous demander si nos prévisions étaient erronées ou non. Nous avons quand même jugé utile d'avoir fait cette prévision.

Je crois qu'il existe quand même une certaine protection et que notre perception de la situation change quelque peu lorsqu'on songe au fait qu'il existe toutes sortes de prévisionnistes utilisant chacun leurs instruments particuliers et ayant chacun leur parti pris. Il est difficile d'avoir une prévision qui domine, même pour le ministère des Finances. Il y aura toujours quelqu'un pour la mettre en doute ou avoir une opinion différente. Du moment qu'il y a divergence d'opinions, le problème ne peut pas devenir trop grave.

Il est évident que, si le ministère des Finances ou la Banque du Canada sont convaincus qu'une chose se produira et prennent des mesures en conséquence, cela peut entraîner des difficultés. Ou cela peut, comme vous le dites, être la cause de cette chose.

Je vous recommande la lecture d'une série de trois articles par William Greider, où il reprend pas à pas l'histoire de la politique monétaire américaine. Il explique comment, par exemple, au début de 1982 les économistes de la Federal Reserve Bank à Washington avaient dit aux gouverneurs de ne pas s'inquiéter parce que l'économie allait reprendre le mois suivant. Ils ont donc continué à s'attaquer à l'inflation et à hausser le taux d'intérêt. L'économie ne s'est toutefois pas rétablie. Ils lui ont donc dit qu'elle se remettrait le mois suivant. Ils ont continué de cette façon et ont finalement engendré la pire récession depuis la guerre.

Dans ce cas bien particulier, des prévisions optimistes n'ont pas entraîné de résultats positifs, mais des actes qui ont gravement empiré la situation. On voit aussi que la prévision peut avoir un effet destabilisateur.

Nous pensons que les attentes s'inspirent des prévisions; d'aucuns prétendront qu'il s'agit de prévisions. Les attentes réelles à l'égard de la performance de l'économie sont plus à même de se réaliser. Par exemple, s'il est de l'avis général que l'économie connaîtra un taux de croissance réelle de 5 p. 100 par année pendant les

[Texte]

behalf of consumers who think they will have jobs and can spend and so they are willing to take on some debt.

This leads to investment decisions. Investors say that they had better get off their tails and build some new plant. That is positive and reinforcing, so in those you might find that there is a tendency towards self-fulfilment. It is not as clear whether that is the case in other areas. Expectations, for example, of higher inflation have brought with them, I would suggest, not higher inflation but much more restrictive monetary policy and in that sense have been proven wrong; of course the Governor of the Bank of Canada's intention is to continue to prove them wrong, with a hope that they will alter that expectation over time.

• 1050

So it is a complicated issue. I think it is worth keeping in the backs of all of our minds. I think, as I say, a useful protection is the public disclosure, for example, of the Department of Finance forecast. It is helpful, I think, for everyone to where they are coming from, and whether that is the same ball park as ours. That is a recent phenomenon, really. That practice started in the late 1970s, particularly the five-year scenario.

Mr. McCrossan: During the Clark government.

The Chairman: I am sorry?

Mr. McCracken: John Crosbie.

The Chairman: Yes. I think it would be useful to know what the Bank of Canada's forecasts are, although I saw that the governor simply said that he thought the growth rate might be a little less in 1988 than in 1987. It is of course very difficult for either the Bank of Canada or the Department of Finance to give you forecasts about things like exchange rates, interest rates, where they are at least presumed to have some influence.

Mrs. Collins: From that, can I again turn to the regional issue, which Mr. Cassidy has also mentioned, but particularly as a British Columbian your forecasts with respect to British Columbia. The figures that have been put forward of course are rather disturbing to see. Could you elaborate a little bit more on why you see the growth rate in B.C. being so low? Are there indeed public policies that could affect or change that, or could improve that?

Mr. McCracken: Yes. I did not bring with me the details on it, but I can give you at least the sense of what is happening. First of all, B.C. is coming from a period of fairly decent investment to one which is lower; particularly the sort of the post-Expo drop is continuing in our forecast. The metals market side is in 1988-89-90 not that vigorous. We have continuing difficulties on the coal export side in our forecast. All of these do not augur

[Traduction]

cinq prochaines années, les consommateurs sont portés à agir d'une certaine façon parce qu'ils sont convaincus qu'ils ne perdront pas leur emploi, qu'ils peuvent donc dépenser et s'endetter en toute sécurité.

Cette attitude donne lieu à des investissements. Les investisseurs se hâtent d'entreprendre la construction de nouvelles usines. Cet enchaînement a un effet positif de sorte que ces attentes ont plus tendance à entraîner le résultat attendu. Il n'est pas sûr que ce soit le cas dans d'autres domaines. Par exemple, on s'attendait à une accentuation de l'inflation, mais on a eu plutôt une politique monétaire beaucoup plus restrictive qui a entraîné le résultat contraire; bien entendu, le gouverneur de la Banque du Canada souhaite de continuer dans cette voie en espérant que ces attentes changeront au fil du temps.

Il s'agit d'une question complexe. Il est bon de toujours l'avoir à l'esprit. Comme je l'ai dit, la divulgation publique des prévisions du ministère des Finances, par exemple, offre une bonne protection. Il est utile à tout le monde de savoir ce qu'ils en pensent et si ces prévisions vont dans le même sens que les nôtres. C'est un phénomène assez récent en fait. Cette pratique a commencé à la fin des années 1970, surtout le plan quinquennal.

M. McCrossan: Sous le gouvernement Clark.

Le président: Pardon?

M. McCracken: John Crosbie.

Le président: Oui. Il serait utile de connaître les prévisions de la Banque du Canada, bien que le gouverneur ait simplement dit, semble-t-il, que, d'après lui, le taux de croissance serait moindre en 1988 qu'en 1987. Il est évidemment extrêmement difficile, que ce soit pour la Banque du Canada ou le ministère des Finances, de fournir des prévisions sur le taux de change ou les taux d'intérêt, étant donné qu'ils ont une certaine influence sur ces éléments.

Mme Collins: Permettez-moi maintenant de passer à l'aspect régional dont M. Cassidy a également parlé, mais surtout à vos prévisions relatives à la Colombie-Britannique, en tant qu'habitante de cette province. Évidemment, les chiffres qui ont été présentés sont assez inquiétants. Pourriez-vous m'expliquer un peu mieux pourquoi la croissance de la Colombie-Britannique sera aussi ralentie que vous le prévoyez? Le gouvernement pourrait-il suivre une politique à même d'améliorer la situation?

M. McCracken: Oui. Je n'ai pas tous les détails avec moi, mais je peux vous donner une idée de ce qui se passe. Premièrement, bien que les investissements aient atteint un niveau acceptable récemment en Colombie-Britannique, la baisse ressentie après l'Expo persistera d'après nos prévisions. En 1988-89-90, le marché des métaux est stagnant. Nos prévisions signalent également des difficultés persistantes du côté des exportations de

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well, particularly for British Columbia. Consumer is weak throughout the country, so there is no big help from that score. Housing again is weaker in all regions, and again you would get no prop-up from that particular area.

Now, what could make it different? How in a more hopeful way... Maybe we have to rationalize where we have missed in 1988 or 1989. The one area we should not forget about... The appreciation of the Canadian dollar vis-à-vis the U.S. dollar is of course the news today, but the change in rate of the Japanese yen and the European currencies vis-à-vis the Canadian dollar is in fact much greater. We have depreciated along with the U.S. dollar 35% to 40% over the last several years. That has to make our exports in Japan extremely attractive. That has to make the tourist from the Far East looking at where to go look at B.C. with the possibility of coming and staying four weeks instead of two, almost at the same price.

So we may find that we are pleasantly surprised by a more substantial pick-up in our exports to the rest of the world, particularly to the Pacific Rim in the case of B.C., although also to Europe, than we are currently forecasting. We do have some pick-up, but it could be a lot better. The other aspect of course is that in some industries—pulp and paper—it appears as though we are at capacity at the moment in B.C., so that in the short run it is hard to see where the potential for further growth comes from. But that again may lead to further expansion on the investment front over the next several years, which again could be a positive long-term improvement in that particular area.

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As for what you can do about it, of course—as in any other region of the country—governments can do something; that is why they are there. One would have to ask both the federal and the provincial authorities what options there may be for infrastructure, bringing forward investments, or any number of sensible moves that would underpin the infrastructure and the growth prospects for the province. Of course, that is not the only province that needs it.

Mr. Warner: You mentioned that you feel there will be an upward trend of appreciation in our dollar, going to over 80¢ in the early 1990s. What are the main factors contributing to this trend?

Mr. McCracken: As you know, anyone who can in fact tell you where exchange rates are going is probably lying or wealthy—and I am not wealthy.

In our models, the kinds of things that lead to appreciation of the exchange rate would be better inflation performance in Canada than in its major trading partners, particularly the U.S.—and let us talk about the

[Translation]

charbon. Tous ces facteurs ne sont pas de bon augure, surtout pour la Colombie-Britannique. Les dépenses de consommation sont faibles partout au pays, et il n'y a aucune aide à attendre de ce côté-là. Le secteur de l'habitation connaît aussi un ralentissement partout au pays, et ne peut avoir aucun effet positif.

Maintenant, qu'est-ce qui pourrait changer la situation? Si l'on veut être plus optimiste... il faudrait peut-être analyser les erreurs commises en 1988 et 1989. C'est peut-être l'appréciation du dollar canadien par rapport au dollar américain qui fait la manchette aujourd'hui, mais il ne faut pas oublier que la baisse du dollar américain par rapport au yen japonais et aux monnaies européennes est beaucoup plus importante. Parallèlement au dollar américain, notre monnaie a perdu 35 à 40 p. 100 de sa valeur au cours des dernières années. Cela doit rendre très attrayantes nos exportations au Japon. Cela portera certainement le touriste d'Extrême-Orient à songer à la Colombie-Britannique et à y séjourner quatre semaines au lieu de deux pour le même prix.

Nous aurons donc peut-être la surprise agréable de voir nos exportations reprendre, surtout celles vers la région du Pacifique dans le cas de la Colombie-Britannique mais aussi vers l'Europe. Nous prévoyons une certaine expansion, mais elle pourrait être beaucoup plus importante. Par ailleurs, bien entendu, il semble que certaines industries fonctionnent à pleine capacité pour l'instant en Colombie-Britannique, comme les pâtes et papiers, de sorte qu'on ne peut envisager de croissance à court terme dans ces secteurs. Mais cela peut aussi entraîner une autre expansion des investissements au cours des prochaines années, ce qui pourrait être une amélioration à long terme dans ce secteur.

Pour ce qui est de ce qu'on peut faire, comme pour toute autre région du pays, les gouvernements peuvent intervenir, c'est pourquoi ils existent. Il faudrait demander aux autorités fédérales et provinciales quelles seraient les options à l'égard de l'infrastructure, de nouveaux investissements ou d'un certain nombre de mesures sensées, qui assureraient l'infrastructure nécessaire et appuyeraient les perspectives de croissance de la province. Bien entendu, ce n'est pas la seule province à en avoir besoin.

M. Warner: Vous avez dit que d'après vous le dollar poursuivrait sa progression et dépasserait les 80c. au début des années 1990. Quels sont les principaux facteurs contribuant à cette tendance?

M. McCracken: Comme vous le savez, quiconque peut prédire de façon exacte les fluctuations du taux de change est probablement menteur ou très riche—et je ne suis pas riche.

D'après nos modèles, les facteurs qui entraîneraient un taux de change plus favorable seraient un taux d'inflation moindre au Canada par rapport à ses principaux partenaires commerciaux, surtout les États-Unis—et

[Texte]

U.S.-Canadian exchange rate in particular. A movement of what we call the terms of trade in favour of Canada would be positive for the currency—that is, the price of our exports relative to the price of our imports—and we do have an improvement over the next several years in a relative sense in terms of trade, as you all are aware. In export prices relative to our import prices, most of the resource prices have fallen quite dramatically: agricultural products, coal, metals, and oil. We foresee that bouncing back somewhat, although not back to the kinds of absolute levels that were in place in the late 1970s. So that helps to appreciate the currency somewhat. In our forecast we have some improvement in the current account balance, though not dramatic. That again has some modest influence on the exchange rate.

Finally, we have interest rates, which, with interest rate differentials between Canada and the U.S. narrowing somewhat, have a net consequence of holding down the appreciation of the Canadian dollar somewhat. So when I suggest to you some appreciation in our forecast, it should be noted that it is coupled with some narrowing of the interest rate spreads between the U.S. and Canada. So if you did not narrow those spreads then we would have in fact more of an appreciation than we are currently looking at.

Of course, the magnitudes we are talking about are meant to be simply indicative of where we think the net forces will be going. We may be at our 1992 target by March, and in 1992 God only knows where we will be in terms of an exchange rate. But we wanted people to get a sense that there would not be further depreciation and that the basic or fundamental factors were set in such a way that one should at least bet against further depreciation and bet for some appreciation.

Mr. Warner: This may be one of the reasons why you were suggesting that we should lower interest rates in Canada, that we have that ability now without really disrupting the level of the Canadian dollar versus the U.S. dollar. You suggest 1% or 2%.

Mr. McCracken: Just to start the ball rolling, that would be a good magnitude. We will see where we go from there. If we had a real interest rate measure—and I will have to follow up on these indexed mortgages you mentioned to see if those are giving us a good market signal and for how long we have it—I would basically be looking to get real interest rates down to a level on the order of 2% to 4%.

Mr. Warner: If you reduce the interest rates say by 2%, then would you change your projection to suggest that the Canadian dollar would probably stay at the level it is at now instead of appreciating to over 80¢?

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Mr. McCracken: It would probably take more than that, because it is a complex set of issues. Let us look at what happens when interest rates drop. In the short run, there may be some immediate purchases of consumer

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parlons justement du taux de change canado-américain. Si ce que nous appelons les termes de l'échange—c'est-à-dire, le prix de nos exportations par rapport au prix de nos importations—devenait favorable au Canada, l'effet serait positif sur notre monnaie, et nous prévoyons en effet une amélioration des termes de l'échange au cours des prochaines années, comme vous le savez. A cet égard, les prix des ressources ont pour la plupart chuté: Les produits agricoles, le charbon, les métaux et le pétrole. Nous prévoyons une reprise à ce titre, mais non aux niveaux élevés qui existaient à la fin des années 1970. Cela pourrait donc entraîner une valorisation de la monnaie. Nous prévoyons également une amélioration de la balance du compte courant, bien que légère. Cela aussi aura une influence limitée sur le taux de change.

Finalement, étant donné que l'écart entre les taux d'intérêt du Canada et des États-Unis se rétrécit, l'appréciation du dollar canadien est quelque peu ralentie. Lorsque je parle d'une appréciation en vertu de nos prévisions, il faut remarquer qu'elle se combine à un rétrécissement de l'écart entre les taux d'intérêt américains et canadiens. Par conséquent, si ces écarts n'étaient pas réduits, l'appréciation de la monnaie serait encore plus forte que celle que nous envisageons.

Evidemment, les chiffres de grandeur que nous donnons ne sont qu'une indication de l'orientation future. Il se peut que notre cible de 1992 soit atteinte en mars, et Dieu sait où sera le taux de change en 1992. Mais nous voulions vous faire comprendre qu'il n'y aurait pas d'autres dépréciations de la monnaie et que tous les facteurs en cause nous portaient à croire qu'on peut compter sur une certaine appréciation pour l'avenir.

M. Warner: C'est peut-être une des raisons pour lesquelles vous proposiez d'abaisser les taux d'intérêt au Canada, en disant que nous pouvions maintenant le faire sans perturber la valeur du dollar canadien par rapport au dollar américain. Vous parliez de 1 ou 2 p. 100.

M. McCracken: Ce serait un bon début. Nous verrons ensuite. Si nous avions une mesure du taux d'intérêt réel—et je reviendrai aux hypothèques indexées dont vous avez parlé et à leur valeur comme signal—je serais favorable à une baisse de ce taux jusqu'à 2 ou 4 p. 100.

M. Warner: Si l'on réduit le taux d'intérêt de 2 p. 100, diriez-vous alors que le dollar canadien se maintiendrait au niveau actuel plutôt que de prévoir une appréciation jusqu'à 80¢?

M. McCracken: Ce ne serait pas suffisant, parce que ce n'est pas si simple. Voyons ce qui se produit lors d'une baisse des taux d'intérêt. A court terme, les achats de biens de consommation progresseront peut-être. Il pourra

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goods. There may be some tightening up of the economy. But there is also an improvement in investment. That investment improvement improves the capacities of the Canadian economy. That means we can export more. That means we are likely to be able to produce more without running up against bottlenecks. It also means we have probably adopted a new technology that gives us higher productivity than we had before, and hence perhaps lower inflation.

In simulations we have run, which, as you might suspect, the Bank of Canada does not necessarily grasp to their bosom, but if we were to run the artificial experiment of holding the exchange rate unchanged and lowering interest rates, and watching what happens in the economy, what happens to us in the very first instance is perhaps some pick-up in inflation, but in the longer-term we actually get less inflation, because we have a more productive environment and because interest rates have a non-trivial effect on many of our regulated prices in agriculture, transportation and communications, etc. When you lower interest rates, you actually set in train something that subsequently lowers prices in those particular sectors.

When the bank of course looks at that kind of a simulation they say that you cannot hold that exchange rate unchanged, and it will drop like a rock; and whatever you say, it is going to cause inflation to be higher.

In any case, I would at least like to convince you that lower interest rates may in fact be conducive to lower inflation rates than might otherwise be the case in the longer run, the principal channel being that move towards increased capital investment, more productive economy, coupled with the direct effect of lower interest costs on many of our regulated prices.

Mr. Warner: And may not have a significant effect on the value of the Canadian dollar versus the U.S. dollar.

Mr. McCracken: I think it would not have as much effect. You may have an initial reaction down, but once the change has occurred, the markets should not be expecting continued depreciation.

Mr. Cassidy: In your model, and you have done some estimates of the impact on employment in Canada, of a reduction of interest rates, such as you suggest, if interest rates came down by 1%, what could we expect to see in terms of impact on employment in Canada?

Mr. McCracken: We have done it. I think the group following me will in fact be giving you some studies on that, including a paper I wrote some time ago, but by which I would still stand. It looks at the sensitivity precisely as you have discussed it: what happens if we lower interest rates, how many more people do we get? In a case where we lowered interest rates by 200 basis points, we had an improvement in the unemployment rate for

[Translation]

y avoir un resserrement de l'économie, mais également un rétablissement des investissements. Cet accroissement de l'investissement améliore les capacités de l'économie canadienne, ce qui signifie que nous pouvons exporter plus. Cela signifie aussi que nous pourrions probablement produire plus sans risquer d'inonder le marché. Nous aurons aussi probablement adopté une nouvelle technologie nous donnant une productivité meilleure qu'auparavant et par conséquent un taux d'inflation moindre.

Dans les simulations que nous avons faites, qui, comme vous vous en doutez, ne sont pas nécessairement acceptées par la Banque du Canada, quand nous maintenons le taux de change au même niveau et abaissons les taux d'intérêt, pour voir quelles seraient les conséquences sur l'économie, il se produit en tout premier lieu une certaine hausse de l'inflation, mais il y a en fait une baisse à long terme parce que l'environnement devient plus productif et que les taux d'intérêt ont un effet négligeable sur bon nombre des prix réglementés de l'agriculture, du transport et des communications, etc. Toute baisse des taux d'intérêt engendre par la suite une diminution des prix dans ces secteurs.

Devant ce genre de simulation, la banque vous dira bien entendu qu'on ne peut pas éviter dans ces circonstances une chute du taux de change; quoi qu'on en dise, cela entraînera une hausse d'inflation.

De toute façon, j'aimerais au moins vous convaincre que des taux d'intérêt moins élevés peuvent en fait mener à un taux d'inflation moindre que ce qu'on aurait connu autrement à long terme, surtout à cause de la progression des investissements, d'une économie plus productive combinée à l'effet direct d'une baisse des taux d'intérêt sur bon nombre des prix réglementés.

M. Warner: Ils n'auront peut-être pas d'effet marqué sur la valeur du dollar canadien par rapport au dollar américain.

M. McCracken: Je crois qu'ils n'auraient pas un effet aussi marqué. Il y aura peut-être une réaction à la baisse au départ, mais lorsque le changement aura été absorbé, les marchés ne devraient pas s'attendre à ce que la dépréciation se poursuive.

M. Cassidy: Vous avez aussi fait des évaluations d'impact d'une réduction des taux d'intérêt sur l'emploi au Canada, et si cette baisse se situait à 1 p. 100, quelles seraient d'après vos prévisions les répercussions sur l'emploi au Canada?

M. McCracken: Nous l'avons fait, en effet. Le groupe qui me suivra vous fera part, en fait, d'études sur la question, notamment un document que j'ai rédigé il y a quelque temps, mais dont je maintiens toujours la validité. Il porte justement sur la sensibilité de ce secteur aux fluctuations du taux d'intérêt. Dans un cas où nous avions abaissé les taux d'intérêt de 200 centièmes de point, le taux de chômage connaissait pendant les cinq premières

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the first five years from an initial 0.1% to 0.5%. This was just with that one change alone.

The Chairman: That is good.

Mr. McCrossan: I just wanted to hit the issue of regional disparity in another way. If we accept that the Toronto-Montreal-Ottawa triangle is essentially overheated, it does not seem to me to make sense to centralize our government labour forces, essentially in that overheated area.

In today's circumstances, given the rapidly falling computer and telecommunications costs, what would be your view on actually making a conscious decision to decentralize government operations as a principal vehicle or as a significant vehicle of government policy, to move, if you will, the white-collar jobs out into the regions and take the labour market pressure off the overheated area?

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Mr. McCracken: As you are aware, that is not a new idea. It has been done in a few cases, Veterans Affairs, I guess, being one of the more recent ones.

I do not see anything fundamentally wrong with that. One has to be concerned about the ability of governments to work together and of departments to work together. It can be positive. I think it would be interesting. The first thing I would want to do is look as a case study at a couple of these things where we have done it, look at the headlines that were there about what was going to go wrong when we did it, and see what in fact happened. Basically, I think we probably would be pleasantly surprised in most cases; i.e., that it did work, that it has helped, that there have been some additional spin-offs that we had not even anticipated.

It is a structural change you are talking about doing, though, and it is not clear that you necessarily want to try to make this move for stabilization because you may find yourself in the awkward position say 10 years down the road where the call is my God, we have to do something for that triangle between Ottawa, Montreal, and Toronto. Let us move all the government offices back into the pit and see if we can pull it off.

The Chairman: With that horrible thought, I thought you were going to recommend that the House of Commons move to Vancouver Island.

Mr. Warner: Mr. Chairman, since our witness is giving a speech at 12.30 p.m. on the topic of free trade, I wonder if he would hit the highlights of that speech now.

Mr. McCracken: In the interests of time and economy, why do I not leave you a copy of the speaking notes? I would simply say that we have done some work on free trade in the past, including the earlier 1985 studies of the Department of External Affairs. We are done subsequent studies. We are currently involved in going through, clause by clause, trying to understand what is there, and

[Traduction]

années une réduction de 0.1 p. 100 à 0.5 p. 100. Ce n'était qu'avec ce seul changement.

Le président: C'est bon.

M. McCrossan: Je voulais aborder la question de la disparité régionale sous un autre angle. Si nous acceptons que le triangle Toronto/Montréal/Ottawa est surchargé, il me semble absurde de centraliser dans cette région l'appareil gouvernemental.

Dans les circonstances actuelles, vu que les coûts de l'informatique et des télécommunications sont en chute libre, que penseriez-vous d'une décentralisation voulue des opérations du gouvernement afin d'encourager le déplacement des emplois de bureau vers les régions et diminuer les pressions sur cette région surchargée?

M. McCracken: Comme vous le savez, l'idée n'est pas nouvelle. Il y a déjà eu plusieurs cas dont le plus récent est, si je ne m'abuse, le ministère des Anciens Combattants.

Je ne trouve rien à y redire. Il faut cependant que les gouvernements et les ministères puissent travailler de concert. C'est là peut-être une mesure positive. Je pense que cela pourrait être intéressant. La première chose qui m'intéresserait serait d'analyser deux ou trois cas de déménagements, de prendre les manchettes de l'époque où l'on prédisait toutes sortes de malheurs, pour voir quelle a été en fait la réalité. Je pense que nous serions agréablement surpris dans la plupart des cas; je veux dire que cela a bien marché, que cela a eu des effets bénéfiques même au-delà de ce que nous avions espéré.

Mais c'est un changement structurel que vous proposez, et je ne suis pas certain qu'il soit nécessairement bon de l'envisager dans le but de stabiliser l'économie, car il se pourrait fort que dans une dizaine d'années vous vous retrouviez dans la situation difficile de devoir faire quelque chose pour le triangle entre Ottawa, Montréal, Toronto. Ramenons-y tous les bureaux du gouvernement et voyons si cela marche.

Le président: Quelle horrible pensée. Je pensais que vous alliez recommander que la Chambre des communes aille s'installer sur l'île de Vancouver.

M. Warner: Monsieur le président, puisque le témoin doit prononcer un discours sur le libre-échange aujourd'hui même à 12h30, je me demande s'il accepterait de nous en donner les principaux points.

M. McCracken: Pour gagner du temps, pourquoi ne vous laisserais-je pas un exemplaire de mes notes? Permettez-moi simplement de vous dire que j'ai fait quelques études sur le libre-échange par le passé, notamment les études publiées par le ministère des Affaires extérieures en 1985. Nous continuons. Nous examinons actuellement l'accord article par article pour

[Text]

we are preparing what we hope will be a fairly decent study on the economic impacts of the free trade agreement in December.

Also, as you are perhaps aware, we have been critical of the recent study tabled by the Department of Finance on the economic impacts. Our criticism there is primarily a technical one in that what they tabled was a free trade impact plus a tax cut; and as much as I would like to endorse the notion that a tax cut might well be appropriate to accompany this free trade agreement, I did not think it helped the understanding of the agreement to confound these two issues. So it was suggested that they would have been more helpful if they had done so in a revenue neutral fashion, much as they have done for, of course, the studies on tax reform.

There were some other minor debates and issues with them, including their not being clear on the interest rate and exchange rate consequences of their run. Again, their unwillingness to make that public in the document makes it very hard for the reader to understand their run. On the other hand, if they had made it public, I suspect the reader would have been even more confused.

The Chairman: We are going to adjourn for three minutes or so, and we are going to commence with our next two witnesses, Mr. Paul Phillips and Duncan Cameron.

• 1109

• 1114

The Chairman: We are continuing with our hearing under Standing Order 96.(2) to talk to selected witnesses with respect to the economy of the country to assist the committee in looking at and understanding the budget and economic conditions of the country.

We have as witnesses right now, from the University of Manitoba, Professor Paul Phillips, and from the University of Ottawa, Professor Duncan Cameron. Welcome, gentlemen. I do not know whether you have a joint presentation. I do not think you have; I think you each have your own thing to say. Perhaps, Professor Phillips, you would like to lead off, and then we will follow up with Professor Cameron.

• 1115

Professor Paul Phillips (University of Manitoba): I would like to take this opportunity to thank the committee for bringing in someone from one of the hinterland regions to make a presentation, and as a result my presentation will be—

The Chairman: I do not know about that, you know—we bring Mary in every week.

[Translation]

essayer de comprendre ce qu'il contient et nous préparons pour décembre une étude—qui devrait être assez bonne—sur les conséquences économiques de l'accord de libre-échange.

En outre, vous savez peut-être que nous avons critiqué l'étude publiée récemment par le ministère des Finances sur ce même sujet. Notre critique est essentiellement d'ordre technique. Nous lui reprochons d'avoir tenu compte non seulement des effets du libre-échange, mais d'y avoir ajouté ceux d'une réduction d'impôt; et même si je suis prêt à admettre que l'accord de libre-échange s'accommoderait très bien d'une réduction parallèle des impôts, je ne pense pas qu'en mélangeant les deux on ait contribué à mieux faire comprendre l'accord. Nous avons donc dit qu'il aurait été préférable de présenter une étude neutre sur le plan fiscal, comme on l'a fait, bien entendu, pour les études sur la réforme fiscale.

Il y avait d'autres points de désaccord mineur, notamment le fait que la simulation n'est pas claire quant aux conséquences sur les taux d'intérêts et le taux de change. Là encore, en se refusant de publier ces données, le ministère rend très difficile la compréhension de son analyse. Mais je suppose que si les données avaient été rendues publiques, le lecteur y aurait encore moins compris.

Le président: Nous allons lever la séance pendant quelques minutes et nous entendrons ensuite MM. Paul Phillips et Duncan Cameron.

Le président: Conformément à l'article 96.(2) du Règlement, nous continuons nos audiences avec les témoins choisis sur l'économie nationale dans le but d'éclairer le Comité sur la situation budgétaire et économique du pays.

Nous accueillons maintenant le professeur Paul Phillips, de l'université du Manitoba, ainsi que le professeur Duncan Cameron, de l'université d'Ottawa. Messieurs, soyez les bienvenus. Je ne sais pas si vous allez faire votre exposé ensemble. Apparemment non; vous avez chacun le vôtre. Nous allons peut-être commencer par le professeur Phillips, et le professeur Cameron aura ensuite la parole.

M. Paul Phillips (professeur, Université du Manitoba): Je remercie le Comité d'avoir invité une personne des régions périphériques, et à ce titre mon exposé sera. . .

Le président: Je ne suis pas tout à fait d'accord, nous invitons Marie chaque semaine.

[Texte]

Prof. Phillips: What I have distributed to the committee is a number of tables. I was working up to the very last moment on them, so some of them are handwritten. But I will try and make my presentation around them. I will start by saying that I think we look with some horror at the comments of the Governor of the Bank of Canada that the economy is overheated and that they are raising interest rates and tightening monetary policy.

If you look at the figures, particularly outside of central Canada, the situation is really very bad, and in fact is still much worse than 1981, which was the first year of the current recession from which we are trying to recover. Table 1 I think shows that across Canada in 1987 the average rate of unemployment was 8.9%, as opposed to 7.6% in 1981. Quebec and Ontario are more or less at or below their performance in 1981, but for the rest, particularly in the west, the unemployment rate is almost double what it was in 1981, and it is still a fairly desperate situation.

Not only is it reflected in the actual rate of unemployment, it is also reflected in the involuntary part-time employment. As you can see, in 1987 it is still almost 50%, between 40% and 50%, outside of central Canada of involuntary part-time employment, and it still represents about 4% to 5% of unemployed. So the situation of involuntary part-time employment and unemployment is still very serious.

The other structural problem is not just a regional one, but it is also an occupational one, which is indicated in table 3, and that is that the employment growth has been very, very selective. In certain major areas such as teaching it has been negative, in certain parts of manufacturing it has been negative, and in the service industries, which is the biggest single employer, it has also been negative in terms of employment growth.

The other point I would like to make about the unemployment, and it is indicated in table 4, is that despite the decline in the past year—and these were the latest dates available, May, July, September 1986, where I had the detailed information available in the labour force survey... if you look at the decline in the recent expansion, although the decline in the rate of unemployment was 9%, it was a 16% decline in Ontario, quite reasonable in the Maritimes, but on the Prairies it was a decline of under 3% in the unemployment rate in the past year, and in B.C. 6%. So the whole west has only declined at about a quarter the rate of unemployment as in eastern Canada.

The rest of the tables are more for your information. You will note that the index of unemployment, 1981, at 100 by 1987 in Canada... it still was higher than 1981, as I indicated before, but below in Quebec and Ontario. But in the Prairies it is double the rate, 193% of the 1981 rate, and in the west generally, 75% higher.

[Traduction]

M. Phillips: Je vous ai fait distribuer un certain nombre de tableaux. J'y ai travaillé jusqu'à la dernière minute, et certains sont donc manuscrits. C'est cependant sur ces tableaux que je vais essayer de baser mon exposé. Pour commencer permettez-moi de vous dire que nous sommes saisis d'horreur devant les commentaires du gouverneur de la Banque du Canada, qui a annoncé que l'économie étant en surchauffe, que la Banque va relever les taux d'intérêt et compresser la masse monétaire.

Les chiffres démontrent que la situation est grave, surtout dans les régions périphériques, et qu'elle s'est en fait beaucoup détériorée depuis 1981, qui a été la première année de la récession dont nous essayons de nous tirer. Vous pouvez voir d'après le Tableau 1 que le taux moyen de chômage au Canada en 1987 était de 8,9 p. 100, alors qu'il était de 7,6 p. 100 en 1981. Au Québec et en Ontario les chiffres sont plus ou moins stables ou un peu inférieurs à ceux de 1981, mais dans le reste du pays, et notamment dans l'Ouest, le taux de chômage a presque doublé par rapport à 1981, et la situation demeure désespérée.

Cela est évident non seulement dans le taux de chômage, mais aussi dans le taux d'emploi à temps partiel involontaire. Comme vous pouvez le voir, il se situait encore en 1987 aux environs de 50 p. 100, entre 40 p. 100 et 50 p. 100, dans les régions périphériques, et il représente encore entre 4 p. 100 à 5 p. 100 des chômeurs. Donc le chômage et le travail à temps partiel involontaire continuent à poser un problème grave.

Il y a un autre problème structurel qui dépasse le cadre régional, comme on peut le voir au Tableau 3, c'est celui de la croissance des emplois, qui est extrêmement sélective. Dans certains grands secteurs comme l'enseignement, la croissance a été négative, comme c'est le cas aussi dans le secteur de la fabrication et dans le secteur des services, qui est le plus grand employeur.

Il y a une autre chose qu'il faut faire remarquer à propos du chômage, et vous pouvez le voir au Tableau 4, c'est qu'en dépit de la baisse enregistrée l'an dernier—les dernières données détaillées dont nous disposons sur le marché du travail datent de mai, juillet et septembre 1986... Bien que le taux moyen de chômage ait diminué de 9 p. 100, la baisse était en fait de 16 p. 100 en Ontario, tout à fait raisonnable dans les provinces maritimes, mais elle se situait à moins de 3 p. 100 dans les Prairies et à 6 p. 100 en Colombie-Britannique. La diminution du taux de chômage dans l'ensemble de l'Ouest n'a donc été que d'un quart par rapport à l'Est du pays.

Je vous ai donné les autres tableaux simplement à titre d'information. Je vous signale que l'indice du taux de chômage pour 1981 étant situé à 100, en 1987... Il demeurait plus élevé qu'en 1981, comme je l'ai déjà dit, sauf au Québec et en Ontario. Dans les Prairies cependant, il a presque doublé, passant à 193 p. 100 par rapport à 1981 et dans l'Ouest en général, il a augmenté de 75 p. 100.

[Text]

Finally, I want to deal with the kinds of policies that have been... these are more fiscal than monetary policies, particularly in the area of labour market structural adjustment expenditures. The sheet after that is headed as tables 1 and 2 on page 4 of an Ontario government submission. These are the actual expenditures from the Canadian Jobs Strategy, which is of course the major policy tool for the labour market adjustment. It has undergone a very substantial decline. The projection for 1987-88 is down to only 68% of the expenditures on job market adjustment that there were in 1984-85. There has been a steady decline.

• 1120

The last table I would like to refer you to is the regional development expenditures. They go up only to 1985-86, because we have been unable to get any figures from the regional offices of regional expenditures after that time. In any case, as you note from the index of grant expenditures, they have also been declining, down to 74% of what they were in 1982-83 by 1985-86. Indexes of loans and guarantees have risen, but they are very, very heavily concentrated in central Canada... the kind of regional expansion in those areas where the economy is most heated. In the case of grants, it is a 74% average over this period. For government guarantees and loans, it is almost 60% in Quebec and Ontario.

The last part of that table is on science and technology expenditures, which are the other major expenditure for economic development in the regions. We note that in central Canada—and we cannot separate them out, because the figures come out including the National Capital Region—almost 70% of all federal government expenditures are occurring in the region that is described as “overheated”.

So what I am basically arguing here is that the whole nature of fiscal policy in terms of expenditure is reinforcing the regional disparities and making it impossible to reach lower levels of unemployment.

M. Duncan Cameron (professeur, Université d'Ottawa): Merci, monsieur le président. Je vais faire ma présentation en anglais, mais s'il y a des questions en français je serais heureux d'y répondre aussi.

I am particularly happy to be invited to appear before this committee and to indicate to you that the Canadian Council on Social Development has just published a book, which I co-edited, called *Policies for Full Employment*. Mike McCracken referred to it earlier, and he has a major contribution in it.

It is on the matter of employment policy that I want to address my remarks. The context I bring to this committee is a feeling as a political scientist that quite often economic policy measures are one-dimensional, and they are dealing with what of course people know by

[Translation]

Enfin, je voudrais parler des politiques qui ont... Ce sont davantage des politiques fiscales que monétaires, surtout dans le domaine des dépenses au chapitre des ajustements structurels du marché du travail. La page suivante était la page 4 d'un exposé au gouvernement de l'Ontario et comporte deux tableaux. Il y a d'une part les dépenses réelles engagées dans le cadre du programme de Planification de l'emploi, qui est bien sûr le principal instrument politique d'ajustement du marché du travail. Les dépenses à ce chapitre ont fortement baissé. Pour 1987-88, on projette 68 p. 100 seulement des dépenses qui avaient été consacrées à l'ajustement du marché du travail en 1984-1985. La baisse a été constante.

Je voudrais maintenant attirer votre attention sur le dernier tableau qui vous donne les dépenses au chapitre du développement régional. Les dernières données remontent à 1985-1986, car nous n'avons rien pu obtenir de plus récent des bureaux régionaux. Quoiqu'il en soit, comme vous pouvez le voir d'après l'indice des subventions, elles sont également en déclin, ne représentant en 1985-1986 que 74 p. 100 du total pour 1982-1983. Les indices des prêts et garanties ont augmenté, mais ils sont très fortement concentrés au centre du pays... On fait de l'expansion régionale dans les zones où l'activité économique est la plus forte. Quant aux subventions, la moyenne est de 74 p. 100 pendant cette période. Les prêts et garanties du gouvernement sont allés pour presque 60 p. 100 au Québec et en Ontario.

La dernière partie du tableau donne les dépenses pour la science et la technologie, qui sont un autre grand outil de développement économique régional. Vous pouvez remarquer que dans le centre du pays—et la ventilation est impossible, car les données comprennent la région de la capitale nationale—près de 70 p. 100 de toutes les dépenses fédérales vont à la région où il y a «surchauffe».

Donc, ce que j'ai voulu dire essentiellement ici, c'est que les dépenses engagées dans le cadre de la politique fiscale ne font qu'accuser les écarts entre les régions et rendent impossible toute résorption du chômage.

Professor Duncan Cameron (University of Ottawa): Thank you, Mr. Chairman. I will make my statement in English but if there are any questions in French I will be happy to answer them.

Je suis très heureux d'avoir été invité devant le Comité et d'avoir ainsi l'occasion de vous dire que le Conseil canadien de développement social a récemment publié un livre, auquel j'ai participé, intitulé *Policies for Full Employment*. Mike McCracken l'a mentionné plus tôt, et il y a contribué en écrivant un important chapitre.

Je voudrais parler de la politique de l'emploi du point de vue d'un expert en sciences politiques qui estime que les initiatives de la politique économique sont très souvent unidimensionnelles, alors que l'économie, cela va de soi, est multidimensionnelle. S'il est extrêmement important

[Texte]

common sense is a multi-dimensional economy. Though it is very important to get the major policies right on macro-economic stimulus, on the level of interest rates, on the level of exchange rates, one has to go beyond those major tools and in the way Professor Phillips has shown look at the economy in all its wider dimensions.

In this respect, in my presentation I make a number of specific policy suggestions that were in fact made at our conference and are published in the book. I was struck, I guess like everybody else, by the interviews the Governor of the Bank of Canada has been giving in the period before the budget and the lead-up to the budget, so I think I will concentrate my remarks in a sense on replying to what he has been saying.

I start my statement by pointing out that Conservative governments historically, at least the Diefenbaker government, are no stranger to having a Governor of the Bank of Canada who is thwarting their economic policy. In the midst of the recession of the early 1960s Governor Coyne, for other reasons, was imposing a tight money policy on the country, which was not helping the Conservative government to prepare for an election in 1962 or 1963.

I point out that the current Governor of the Bank of Canada is following what I consider to be an excessively tight monetary policy. To characterize that, I think my second paragraph really gives the key point. If you look at January 1987 bank rates, the competitive private market in the United States and Canada, you see a spread of 2.5 percentage points. If you looked in yesterday's paper you would see a spread of 1.25. So the natural market forces in Canada and the United States are leading to harmonization of interest rates. At the same time, if you look at the treasury bill market—in fact the U.S. treasury bill rate has hardly moved in that period—the gap between the Canada treasury bill and the U.S. treasury bill has gone from 165 to 255. It is going the other way. So if the object of monetary policy is to influence the treasury bill rate, the Governor of the Bank of Canada and the bank have been pushing the treasury rate up, pushing interest rates up in Canada.

• 1125

I will leave it to people more learned than myself to explain to you exactly how interest rates are determined. We can discuss that if you want. I have my views. But I think the evidence is quite clear that the Governor of the Bank of Canada, on his own account, without explaining really why to anybody, has undertaken this policy and has pushed the Canadian dollar from 74¢ to 78¢ in terms of the U.S. dollar; and probably on a trade-weighted basis he is trying to keep it somewhat more stable.

I would certainly question his assertion that we should have a zero inflation rate. If he wants to come down to zero, why not minus one, minus two, minus three, minus four, etc.? I find this to be quite an extraordinary

[Traduction]

d'adopter de bonnes politiques sur le plan macro-économique, sur le plan des taux d'intérêt, des taux de change, il faut savoir aller au-delà des grandes initiatives et, comme l'a démontré le professeur Phillips, envisager l'économie sous tous ses angles.

C'est dans ce contexte que j'avance, dans mon mémoire, diverses suggestions de politique précises, suggestions que j'ai déjà présentées à notre conférence et qui sont publiées dans le livre que j'ai mentionné. Comme tout le monde, je suppose, j'ai été frappé par ce qu'a déclaré le gouverneur de la Banque du Canada dans les entrevues qu'il a accordées dans cette période pré-budgétaire, et je vais donc me limiter en quelque sorte à lui répondre.

J'ouvrirai en faisant remarquer qu'historiquement les gouvernements conservateurs—ou du moins le gouvernement Diefenbaker—ont l'habitude de voir le gouverneur de la Banque du Canada contrecarrer leur politique économique. En pleine récession, au début des années 1960, le gouverneur Coyne, pour d'autres raisons, imposait une politique monétaire stricte, qui n'a pas aidé le gouvernement conservateur dans les élections de 1962 ou 1963.

Je fais remarquer que l'actuel gouverneur de la Banque du Canada a adopté une politique monétaire que je juge excessive. La raison est bien expliquée, je crois, dans mon deuxième paragraphe. Si vous regardez les taux de prêt bancaires pour janvier 1987, vous noterez que l'écart entre les marchés privés canadiens et américains est de 2,5. D'après le journal d'hier, l'écart est maintenant de 1,25. Les forces naturelles du marché poussent donc à l'harmonisation des taux d'intérêt entre le Canada et les États-Unis. En même temps, le marché des bons du trésor—en fait, le taux sur les bons du trésor n'a presque pas bougé aux États-Unis pendant cette période—l'écart entre le Canada et les États-Unis est passé de 165 à 255. La tendance est inversée. Par conséquent, si le but de la politique monétaire est d'influencer le taux sur les bons du trésor, le gouverneur de la banque du Canada les a poussés à la hausse, il a fait monter les taux d'intérêt au Canada.

Je laisserai à de plus compétents que moi le soin de vous expliquer exactement comment sont décidés les taux d'intérêt. Nous pourrions en parler si vous le désirez. J'ai mon opinion. Mais il est évident, il me semble, que le gouverneur de la banque du Canada, de son propre chef et sans expliquer ses raisons à quiconque, a adopté cette politique et a fait passer le dollar canadien de 74 à 78c. américains; et il cherche probablement à le stabiliser d'après une moyenne pondérée sur la base du commerce extérieur.

Je m'inscris en faux contre son affirmation que nous devons arriver à un point d'inflation zéro. Si nous visons zéro, pourquoi pas moins un, moins deux, moins trois, moins quatre, etc.? Je trouve cette affirmation tout à fait

[Text]

statement on his part. I can only really offer three explanations for the sort of anti-inflationary policy he is following.

I would just like to add—I did not put it in my paper—that since October 19 one would have thought, given the calamities in financial markets, that you would have perhaps had a sharp rise in the price of gold. But in fact we have had gold prices falling, which indicates to me that there are some deflationary pressures in the economy, and at the same time the governor is fighting inflation. Why?

In a sort of a humorous way, I would suggest that he thinks that Toronto is Canada, that if he thinks there is overheating in southern Ontario then that is sufficient reason to clamp down on the rest of the country, regardless of the economic situation Professor Phillips has pointed out. I do not have to explain to Members of Parliament about the regional nature of Canada; and I would hope that the Bank of Canada has not in fact become the Bank of Toronto.

The second explanation, which is in fact one I am not sure applies, but which could be put forward, is if you believe the United States is going into a recession—and of course Mike McCracken elegantly set out the reasons why we cannot know whether the economy is going up or down at any particular time, but the leading indicators, as reported yesterday by Giles Gherson, seem to indicate that the U.S. is going down—and if you were concerned, as the governor seems to be, about the value of the Canadian dollar above all else, and that was the sense of the interview he gave to Barry Critchley in the first edition of *The Financial Post*, then you would be concerned that if the U.S. economy is dropping, then Canadian exports to the U.S. are going to drop; and if the Canadian economy continues to grow, Canadian imports from the U.S. are going to grow. Since we know we have about a \$23 billion deficit on the services account of the balance of payments, if we go from a merchandise surplus to a decreased merchandise surplus, which can no longer finance that current account services deficit, then we are going to require more foreign borrowings, and we are going to require higher interest rates and a stronger dollar in a sense. He is perhaps anticipating this, and as a result is getting ready for the crunch of having to finance the current account deficit that may result if the U.S. goes into a depression or a recession.

I might add that the usual way the government has dealt with these matters is of course the opposite. Usually what you do if you think the U.S. is going into some kind of a depression is you put on the fiscal brakes but you attempt to drop the Canadian dollar a little bit so you can hold up Canadian exports to the U.S. while cutting off Canadian imports. The governor seems to be doing something which I think is rather perverse in widening

[Translation]

extraordinaire de sa part. Je ne peux qu'offrir trois explications possibles à cette politique anti-inflationniste qu'il a adoptée.

Je voudrais ajouter—ce n'est pas dans mon mémoire—que depuis le 19 octobre on aurait pu penser, compte tenu de la débâcle des marchés financiers, que le prix de l'or allait faire une forte remontée. En fait, le prix de l'or baisse, ce qui indique, à mon avis, l'influence de pressions déflationnistes, et pendant ce temps, le gouverneur combat l'inflation. Pourquoi?

Je dirais presque en plaisantant qu'il s'imagine que le Canada, c'est Toronto, et que si l'économie est en surchauffe dans le sud de l'Ontario, cela suffit à justifier une politique restrictive pour l'ensemble du pays, sans égard à la situation économique que nous a décrite le professeur Phillips. Je n'ai pas à expliquer à des députés le caractère régional du Canada; j'ose espérer que la banque du Canada n'est pas en réalité devenue la banque de Toronto.

La deuxième explication, dont je ne pense pas qu'elle soit la bonne, mais qu'on pourrait imaginer, c'est que si l'on est convaincu que les États-Unis entrent dans une période récessionniste—Mike McCracken a très élégamment démontré pourquoi il nous est impossible de savoir si l'activité économique est à la hausse ou à la baisse à un moment donné, mais d'après les indicateurs que rapportait hier Giles Gherson, il semble que l'économie américaine soit en déclin—et si l'on est préoccupé avant tout, comme cela semble être le cas du gouverneur, par la valeur du dollar canadien—c'est l'impression qu'il a laissée dans l'entrevue qu'il a accordée à Barry Critchley pour la première édition de *The Financial Post*—il est alors normal de craindre que, si l'économie américaine ralentit, les exportations canadiennes vers les États-Unis suivent le mouvement; et si l'économie canadienne continue de croître, les importations canadiennes en provenance des États-Unis croîtront avec elles. Comme nous savons que notre déficit sur le compte des services de la balance des paiements s'élève à 23 milliards de dollars, si nous réduisons l'excédent sur le compte des marchandises jusqu'au point où celui-ci ne pourra plus financer le déficit du compte courant des services, nous serons obligés d'emprunter davantage à l'étranger et donc d'augmenter les taux d'intérêt pour avoir un dollar plus fort. C'est peut-être ce qu'il prévoit, et il se préparerait donc pour le jour où nous aurions à financer le déficit du compte courant que pourrait entraîner une récession ou une crise aux États-Unis.

J'ajouterai que c'est bien sûr la solution contraire que retient le gouvernement pour régler ses problèmes. Habituellement, si l'on a raison croire que les États-Unis entrent dans une période récessionniste, on met le frein sur le plan fiscal tout en essayant de faire baisser un peu le dollar canadien pour maintenir les exportations vers les États-Unis et réduire les importations au Canada. Si l'intention du gouverneur est de régler le problème de la

[Texte]

the interest rate differential if he is doing it to deal with the balance of payments problem.

I offer a third sort of hypothesis. It is only a hypothesis, and it is far-fetched, but it is a logical one. I was trained in France, where we were supposed to bring up all the logical reasons.

• 1130

The governor has decided on his own behalf—or somebody else has decided for him—that Canada should help out the U.S. with its trade deficit by artificially raising the value of the Canadian dollar through higher interest rates. Is this a possibility? I have not heard such a thing announced as a result of the free trade agreement. However, this is what is happening and will happen as a result of bank policy.

In conclusion, allow me just to mention a couple of policy options I think the committee might want to explore and indeed raise with the Minister of Finance at some point. I have already alluded to the first point, which is that the Minister of Finance should clearly indicate who is in control of economic policy in Canada and should let the Governor of the Bank of Canada know it is time to reduce the interest rate differential between U.S. and Canadian treasury bills. Whether it is to be done discreetly, quietly, over dinner or publicly I would leave to more seasoned political advisers than myself.

The second recommendation, which comes from our book, is much more *terre à terre*. The government should seize the initiative and pick up the proposal of the Federation of Canadian Municipalities for a joint federal-provincial-municipal program for renewal of physical infrastructure across the country. The Federation of Canadian Municipalities have visited their American counterparts and have noted the deterioration of the physical infrastructure in the U.S. to the point that they cannot possibly finance what is needed in one shot. They suggest that in Canada we get ahead of the game and start financing renewal of physical infrastructure on a regular basis by the three levels of government.

The interest on the federal government's part would be to use this program to identify those communities that have been the hardest hit by unemployment and to pick off the Beauce area of Quebec, for instance, which might be doing reasonably well. If you compare it with *le bas du fleuve* in Quebec, where there is 22% unemployment, you could have a nice little municipal program going for renewal.

The Chairman: They are building a penitentiary in Port-Cartier.

[Traduction]

balance des paiements en creusant l'écart entre les taux d'intérêt, je trouve qu'il a choisi une solution plutôt perverse.

J'offrirai une troisième hypothèse. Ce n'est qu'une hypothèse, et elle est un peu tirée par les cheveux, mais elle est logique. J'ai été formé en France où l'on nous apprend à découvrir toutes les raisons logiques.

Le gouverneur a décidé tout seul—ou quelqu'un en a décidé ainsi pour lui—que le Canada doit aider les États-Unis à résorber leur déficit commercial en poussant artificiellement le dollar canadien à la hausse par des taux d'intérêt élevés. Est-ce possible? On n'a rien annoncé de tel dans le cadre de l'accord de libre-échange. Cependant, c'est ce que nous sommes en train de faire et ce que nous continuerons de faire grâce à la politique de la Banque du Canada.

Pour conclure, permettez-moi simplement de mentionner quelques solutions politiques possibles que le Comité pourrait examiner et même peut-être suggérer au ministre des Finances. J'ai déjà fait allusion à la première, qui serait que le ministre des Finances fasse clairement savoir qui mène la politique économique du Canada et informe le gouverneur de la Banque du Canada qu'il est grand temps de réduire l'écart entre les taux d'intérêt américains et canadiens sur les bonds du Trésor. Quant à savoir s'il est préférable de le faire discrètement, entre la poire et le fromage, ou publiquement, je laisse à des conseillers politiques plus avertis que moi le soin d'en juger.

La deuxième recommandation, qui est tirée de notre livre, est beaucoup plus *terre à terre*. Le gouvernement devrait prendre l'initiative et s'emparer de la proposition de la Fédération canadienne des municipalités pour le renouvellement, par un programme mixte fédéral-provincial-municipal, de nos infrastructures à l'échelle nationale. Les représentants de la Fédération canadienne des municipalités sont allés rendre visite à leurs homologues américains et ils ont pu constater une détérioration des infrastructures physiques aux États-Unis à tel point qu'il n'est plus possible de financer en une fois les réparations nécessaires. La fédération suggère donc que le Canada ne se laisse pas prendre de court et mette sur pied un programme de renouvellement régulier des infrastructures financé par les trois paliers gouvernementaux.

Le gouvernement fédéral pourrait, grâce à ce programme, identifier les communautés qui ont été le plus durement frappées par le chômage et laisser de côté certaines régions comme la Beauce, au Québec, par exemple, qui se porte plutôt bien, comparativement à la région du bas du fleuve, où le chômage atteint 22 p. 100. On pourrait prévoir là un joli petit programme municipal de renouvellement des infrastructures.

Le président: On construit un pénitencier à Port-Cartier.

[Text]

Prof. Cameron: Exactly.

The third point I would raise is a little different one. I must admit I am not as close to this file as I once was, but I have a certain affection for the Federal Business Development Bank. I noted the way it is operated. It has brought in retired business people and has had them act on a volunteer basis covering cost to help clients prepare loan demands. I think this is in a sense the spirit of a certain community-oriented economic program we should see more of in government. I would like to see the Federal Business Development Bank making loans to cost-recovery community enterprises, making equity loans and helping some of these ventures that are under way. These are described in our book by David Ross of the Canadian Council on Social Development. Perhaps these are not of major job creation, but they are a way of getting more job return out of an expenditure of public money than you get out of building a penitentiary, for instance.

Fourthly, I will leave you with a thought you may find not particularly welcome. In our book, Jim Hawkes came and presented to us from the perspective of a chairman of a parliamentary committee what you can do about employment policy. He really explained to all of us that the parliamentary committees were now going to be playing a role. They were going to be a more autonomous centre of policy advice. Ministers were not going to be relying simply on their bureaucrats or on privileged people outside government, perhaps within the party. The committees themselves would become centres of initiative and maybe break some of the silence over public policy debate that somehow seems to take over when you have a Minister and a department operating in secrecy.

I just wanted to throw on the table that if this committee wanted to undertake a major piece of inquiry, a useful subject would be the international monetary system. Canada has produced a number of specialists in this field. I think there is a lot of highly placed concern about what is going on in the international monetary system. It would be nice for this committee to bring in the major bankers and people from the Bank of Canada, Department of Finance, academics from Canada and other countries, and have them lay it out and see in about a year's time a good-quality report of the type this committee is capable of producing out in the public domain, in English and French so I can use it in my classrooms. I think it might help to stimulate a debate internationally and it would be useful for the International Monetary Fund meetings and for other discussions.

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I might point out that I was in Washington in January testifying before a congressional symposium, and I was in

[Translation]

M. Cameron: Exactement.

Le troisième point dont je voulais parler est un peu différent. Je reconnais que je ne connais plus le dossier aussi bien qu'autrefois, mais j'ai une certaine prédilection pour la Banque fédérale de développement. Elle a une façon intéressante de fonctionner. Elle a fait appel à des gens d'affaires à leur retraite, auxquels elle rembourse leurs frais, et qui, bénévolement, aident les clients à remplir les demandes de prêt. C'est ce genre de programmes économiques à orientation communautaire que le gouvernement devrait envisager davantage. Je souhaiterais que la Banque fédérale de développement accorde des prêts à des entreprises communautaires gérées selon le principe de l'autonomie financière, qu'elle accepte des prises de participation remboursables et vienne en aide à certaines de ces entreprises actuellement en cours et que décrit dans notre livre David Ross, du Conseil canadien de développement social. Ce ne sont peut-être pas de grandes créatrices d'emploi, mais le contribuable en a plus pour son argent qu'avec la construction d'un pénitencier, par exemple.

Quatrièmement, je vais vous laisser sur une pensée qui ne vous sera peut-être pas très agréable. Jim Hawkes a écrit dans notre livre un chapitre où il décrit, du point de vue du président d'un comité parlementaire, comment les comités peuvent influencer la politique en matière d'emploi. Il nous a, en fait, expliqué que les comités du Parlement vont maintenant avoir un rôle à jouer. Ils vont devenir des centres d'influence politique plus autonomes. Les ministres ne s'en remettent plus exclusivement aux bureaucrates ou à quelques privilégiés en dehors du gouvernement, peut-être au sein de leur parti. Les comités vont devenir des centres d'initiative et peut-être rompre le silence dont sont enveloppées les questions politiques à partir du moment où le ministre et son ministère opèrent dans le secret.

Je voulais donc simplement vous dire que si le Comité était intéressé à entreprendre une étude importante, il pourrait envisager d'examiner le système monétaire international. Le Canada compte dans ce domaine un certain nombre de spécialistes. Je pense que le système monétaire international cause actuellement bien des soucis en haut lieu. Ce serait bien si votre comité invitait les grands banquiers, des représentants de la Banque du Canada et du ministère des Finances, ainsi que des théoriciens canadiens et étrangers, pour leur demander leurs idées sur la question. Puis, dans environ un an, vous pourriez produire un rapport de qualité, du genre que nous sommes maintenant habitués à recevoir de vous, dans les deux langues officielles, afin que je puisse m'en servir dans mes classes. Je crois que cela stimulerait le débat à l'échelle internationale en plus de contribuer aux réunions du Fonds monétaire international et à d'autres discussions de la question.

Je vous signale en passant que j'étais à Washington le mois dernier pour témoigner devant un symposium du

[Texte]

the Wright Patman Room of the Senate Finance Committee. Of course, for many years in the House of Representatives he organized this kind of meeting, and it was the Canadians who went down, Harry Johnson and Robert Mondel, who used to steal the show every year. So I do not see why we could not do the same sort of thing in Canada and have our own experts put forward—for instance, people like Gerry Helleiner from the University of Toronto.

Thanks very much for your attention.

The Chairman: Thank you very much. Before I go to Mr. Cassidy, I wonder if you would not agree with me that the world currency to a large extent is the United States dollar, that when our dollar goes up in value, our exporters get more "real money" for what they sell than they do when our dollar is low; and second, that when we buy things, as we have to in a country like Canada—machinery and so on that represent any increase in imports, or essentially production of machinery imports—those cost the buyer less.

Now, what is the real advantage to us of having a cheap currency? If there is any advantage to a cheap currency, I wonder why Argentina and Brazil are not growing like no tomorrow with their cheap currency.

Prof. Cameron: I think your point is very well taken, of course, that when the Canadian dollar rises it makes it easier for average Canadians to buy goods produced abroad. When the Canadian dollar rises it makes it more difficult for Canadian exporters to get some more of those so-called real dollars.

The Chairman: Yes, but there has been no decline in our exports. In most cases, we are exporting everything we can export.

Prof. Cameron: Yes, but my real point is this. Which price do you think is the most significant one in the economy, the rate of interest or the exchange rate? What the Governor of the Bank of Canada is telling us is that, for him—and he has been quoted as saying it—the most important price is the exchange rate.

Now, the exchange rate affects an important range of goods and services, about 30%, and it affects them in an asymmetrical way. Exporters like a lower Canadian dollar. Why? Because they get more Canadian dollars for their real dollars. They assume that the selling price stays the same in U.S. dollars; it does not change because the value of the Canadian dollar changes, but they get more of those U.S. dollars in terms of Canadian dollars. So exporters like a lower currency.

My point is really this. If you have to keep real interest rates at 2% above U.S. rates in order to maintain the value of the Canadian dollar, there may be an argument

[Traduction]

Congrès, dans la salle Wright Patman, du Comité sénatorial des finances. Comme vous le savez, c'est lui qui, pendant bien des années, a organisé ce genre de réunion à la Chambre des représentants, en invitant des Canadiens, comme Harry Johnson et Robert Mondel, qui volaient systématiquement la vedette chaque année. Je ne vois donc pas pourquoi nous ne pourrions pas faire la même chose au Canada en invitant nos propres experts à apporter leurs idées—par exemple, des gens comme Gerry Helleiner, de l'université de Toronto.

Je vous remercie de votre attention.

Le président: Merci beaucoup. Avant de passer à M. Cassidy, j'aimerais vous demander ceci. Ne croyez-vous pas, comme moi, que la devise mondiale est dans une grande mesure le dollar américain? Ne croyez-vous pas également que lorsque notre dollar monte, les exportateurs canadiens obtiennent plus d'argent «réel» pour les produits qu'ils vendent que lorsque le dollar baisse; et deuxièmement, ne croyez-vous pas qu'en important des produits comme des machines, choses nécessaires dans un pays comme le nôtre, et qui représentent une augmentation des importations, ou du moins une augmentation de l'importation de production de machines, que cela coûte moins cher à l'acheteur?

Quel est le véritable avantage à avoir une devise faible? S'il y en a un, je me demande pourquoi l'Argentine et le Brésil ne connaissent pas un plus grand boom économique, compte-tenu de leur propre situation.

M. Cameron: Évidemment, vous avez raison de dire que lorsque le dollar canadien augmente, il est plus facile au Canadien moyen d'acheter des produits fabriqués à l'étranger. Lorsque le dollar canadien augmente en valeur, il devient plus difficile pour les exportateurs canadiens d'obtenir plus de ce que l'on appelle les dollars réels.

Le président: Oui, sauf qu'il n'y a eu aucune baisse de nos exportations. Dans la plupart des cas, nous exportons tout ce que nous pouvons.

M. Cameron: Oui, mais ce qui compte, c'est ceci. Quel est le facteur le plus important pour l'économie, le taux d'intérêt ou le taux de change? D'après le gouverneur de la Banque du Canada—et il l'a déclaré publiquement—le facteur le plus important est le taux de change.

Le taux de change touche une vaste gamme de biens et services, environ 30 p. 100, et ce d'une manière asymétrique. Les exportateurs préfèrent un dollar canadien à la baisse. Pourquoi? Parce qu'ils réussissent à obtenir plus de dollars canadiens pour leurs dollars réels. Ils supposent que le prix de vente demeure le même en dollars américains. Le prix ne change pas parce que la valeur du dollar canadien a changé, et cela leur permet d'obtenir plus de dollars américains comparativement aux dollars canadiens. C'est pourquoi une devise à la baisse convient aux exportateurs.

Mais l'important, c'est ceci: s'il faut maintenir les taux d'intérêt réels à 2 p. 100 au-dessus des taux américains pour soutenir la valeur du dollar canadien, cela pourrait

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for doing that. But when you do that and you allow the Canadian dollar to rise as a result, in a sense you are losing, as Mike McCracken shows in his paper, about \$50 billion in gross national product per year as a result of this, because of the higher interest rate. So I think the interest rate is a more significant price, that it works its way right through all our costs, including our costs of exports and including our costs of imports because most importers borrow money in order to buy. As a result, it is the big lever in the economy, and I think our interest rates are much too high.

If I go back to when I worked in the Department of Finance in the middle 1960s, I will not take responsibility for the revision of the Bank Act in 1967, which took the ceiling off the level of loans. But we were told we would have more competition and lower interest rates as a result, and we have not had lower interest rates. We have skyrocketing interest rates. Now, thanks to this committee, my credit card rate is not as high as it used to be, but the other rates are very high, and if you add into that the bank charges—

The Chairman: We are coming to that.

Prof. Phillips: Perhaps I can make a comment about that from a regional basis. Since the world wheat price is set in American dollars, as the Canadian dollar has risen there has been a 2% or 3% decline in farm income from our region. Since most of the inputs are bought in Canada, this is a decline in Canadian dollar income, which hurts the farm machinery industry and all those input industries. So any further rise in Canadian dollar income taken right out of the pockets of farmers, so I think it also has a regional bias.

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Mr. Cassidy: Mr. Chairman, it has been suggested to me that these pre-budget hearings might in a future year take place around October or November so that perhaps there is more opportunity to directly influence the Finance Department. Unfortunately, I do not think the budget next week will be changed because of this. It is a valuable precedent though.

The Chairman: I am told it is already in the can.

Mr. Cassidy: Yes, I have heard that. What I notice in particular, though, is that a lot of the discussion with all of the witnesses is focused on interest rates, monetary policy, and regional disparities. You are not alone in raising those particular issues. I am concerned as well about the comment made by Governor Crow about the value of the Canadian dollar being a prime responsibility or a fundamental objective. It is awfully close to saying it is a sacred trust, and we know where that can lead. Could you give me some indication of what the estimated impact

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se justifier. Mais si, ce faisant, le dollar canadien augmente, comme Mike McCracken l'a indiqué dans son document, vous allez vous retrouver perdants d'environ 50 milliards de dollars de produit national brut par année, à cause du taux d'intérêt supérieur. Donc, j'estime que le taux d'intérêt est un facteur plus important, qu'il touche les coûts sur tous les plans, y compris les coûts d'exportation et les coûts d'importation, car la plupart des importateurs empruntent pour acheter. Par conséquent, cela devient le gros levier économique, et j'estime que nos taux d'intérêt sont beaucoup trop élevés.

J'ai travaillé pour le ministère des Finances vers le milieu des années soixante, mais je n'assume aucune responsabilité pour la révision de la Loi sur les banques de 1967, qui a supprimé le plafond des prêts. On nous avait dit à l'époque que cela entraînerait une plus grosse concurrence et une diminution des taux d'intérêt, sauf que les taux d'intérêts n'ont pas baissé. Au contraire, ils sont montés en flèche. Maintenant, grâce à votre comité, le taux d'intérêt de ma carte de crédit n'est pas aussi élevé qu'il était, mais les autres taux sont encore très élevés, et si on y ajoute les frais bancaires. . .

Le président: Nous y arrivons.

M. Phillips: Permettez-moi de vous donner une perspective régionale. Le prix mondial du blé est fixé en dollars américains. Comme le dollar canadien a augmenté, il y a eu une baisse de 2 ou 3 p. 100 dans les revenus agricoles de notre région. Comme la plupart des produits sont achetés au Canada, cela représente une baisse des revenus en dollars canadiens, ce qui nuit au secteur de production de machines agricoles et à tous les autres secteurs connexes. Alors n'importe quelle autre augmentation signifie une perte de revenu en dollars canadiens imputée directement aux agriculteurs; c'est pourquoi j'estime que cette question présente aussi une perspective régionale.

M. Cassidy: Monsieur le président, quelqu'un a proposé que dorénavant, les séances pré-budgétaires aient lieu aux environs d'octobre ou novembre, afin que nous ayons une meilleure occasion d'influencer directement le ministère des Finances. Malheureusement, je doute que nous réussissions à influencer le moindre le budget qui sera déposé la semaine prochaine. Cependant, ce serait une bonne idée.

Le président: Apparemment, c'est déjà décidé.

M. Cassidy: Oui, c'est ce que j'ai entendu dire. Cependant, j'ai remarqué une chose en particulier, et c'est qu'une bonne partie de la discussion avec les témoins tourne autour des taux d'intérêt, de la politique monétaire et les disparités régionales. Vous n'êtes pas les seuls à avoir soulevé ces questions. Je suis également étonné par la remarque de M. Crow, qui a dit que la protection de la valeur du dollar canadien est un objectif fondamental. Cela revient presque à dire qu'il s'agit d'une vache sacrée, et nous savons tous ce qui peut leur arriver au Canada.

[Texte]

would be in terms of employment? What would be the estimated impact of a significant decrease in interest rates from the current high levels in terms of regional development?

Prof. Cameron: I am not an econometrician, but Mike McCracken is, and when he looked at the impact of let us say a 2% drop in interest rates, he estimated it would be \$50 billion per year of GNP.

The Chairman: No, no.

Prof. Cameron: He says that our full capacity... we are below full capacity, which is costing us about \$50 billion per year, and we could take \$5 billion of that out if we got a reduction of two points. I think that is right, Mike.

Mr. Cassidy: In regional terms...?

Prof. Phillips: The budget deficit is very heavily influenced at the regional level as well. I will again use the west, which I know best. All four provinces have major budget deficits, and, of course, the impact of the ability to use government expenditure is very heavily affected by the rate of interest on which they can borrow and on which they have to pay their existing debt. So it is one way of getting the deficit down. Therefore, expanding any fiscal capacity of the regions would be to reduce the interest rate.

As far as I know, there have been no econometric studies of the actual impact of that, other than at the national level. But it certainly would have a major impact on infrastructure investment in say western Canada.

Mr. Cassidy: The governor said that you have to have one monetary policy for Canada, and therefore if Toronto is overheating then he has no choice but to slam on the breaks. You have both made it clear that you disagree with his view that the inflation rate has to be brought down to zero before he can really let up. But do you think there are possible ways, either by jawboning or in more specific ways, that there can be some variances in monetary policy in order to encourage real activity in the real economy in the regions and that this is a possibility in addition to the kind of fiscal policy moves you suggest? Can the banks be asked or directed to look more favourably on build-up of inventory, construction of new plants, creation of new activity, or on export financing from the regions? Then they would look at similar requests coming from central Canada.

Prof. Phillips: I think it can be done, but not through a separate monetary policy so much as in the fiscal policy. An example I gave is, if you look at the index of loans and guarantees in regional programmes, the actual federal-regional funds are going to the overheated areas. You

[Traduction]

D'après vous, quelles seraient les répercussions sur l'emploi? Quelles seraient approximativement, pour le développement régional, les répercussions d'une chute importante des taux d'intérêt comparativement à leurs niveaux élevés actuels?

M. Cameron: Je ne suis pas spécialiste en économétrie, mais Mike McCracken l'est, et lorsqu'il a pris l'exemple d'une baisse de 2 p. 100 des taux d'intérêt, il a calculé que cela représenterait 50 milliards de dollars par année pour le PNB.

Le président: Mais non.

M. Cameron: Il dit que notre productivité est inférieure à sa capacité maximale, ce qui nous coûte environ 50 milliards de dollars, dont on pourrait enlever 5 milliards si nous réussissions à baisser les taux de deux points. Je crois que c'est cela, Mike.

M. Cassidy: Pour ce qui est des régions...?

M. Phillips: Le déficit budgétaire est d'ailleurs aussi très fortement influencé par les régions. Prenons encore une fois l'exemple de l'Ouest, que je connais bien. Les quatre provinces de l'Ouest accusent d'importants déficits budgétaires et, bien entendu, les taux d'intérêt auxquels elles peuvent emprunter pour rembourser leurs dettes existantes, influent énormément sur les dépenses gouvernementales qu'elles peuvent se permettre. C'est donc là une façon de combler une partie du déficit. Par conséquent, pour augmenter la capacité de dépenser des régions, il faudrait baisser les taux d'intérêt.

À ma connaissance, il n'y a eu aucune étude économétrique sur les véritables répercussions d'une telle mesure, sauf à l'échelle nationale. Mais cela aurait sans aucun doute d'importantes répercussions sur les investissements dans la construction d'infrastructures, par exemple dans l'Ouest du Canada.

M. Cassidy: D'après le gouverneur, il faut adopter une seule politique monétaire pour le Canada, et si Toronto exagère, il n'aura d'autre choix que de l'obliger à freiner ses dépenses. Vous avez tous deux indiqué clairement que vous n'êtes pas d'accord avec sa position, selon laquelle tant que le taux d'inflation ne sera pas réduit à zéro, il ne pourra lâcher prise. Mais croyez-vous qu'il y ait moyen, que ce soit en exerçant des pressions venant d'en haut, ou par d'autres moyens spécifiques, de permettre certaines variantes à la politique monétaire afin d'encourager des activités véritables pour stimuler l'économie réelle des régions, et que ce soit une possibilité, en plus des mesures que vous proposez pour la politique fiscale? Peut-on obliger les banques à encourager l'augmentation des inventaires, la construction de nouvelles usines, la création de nouvelles activités, ou même à financer les exportations régionales? Puis, on pourrait examiner des demandes semblables provenant du centre du pays.

M. Phillips: Je crois que ce serait possible, mais pas aussi facilement avec une politique monétaire distincte, qu'avec une politique fiscale. Si vous prenez l'index des prêts et des garanties des programmes régionaux, j'avais donné l'exemple des fonds fédéraux-régionaux réels qui

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can... your loan guarantees and federal government policies to develop regional expenditures. It does not make sense to concentrate them in Ontario and Quebec.

The Chairman: Your problem is that Ontario and Quebec are not one consistent situation. In parts of Quebec there is the highest unemployment in the country.

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Prof. Phillips: I realize that.

The Chairman: I speak particularly of the north shore, and there are parts of northern Ontario where things are pretty damned grim. So the question is that those large areas ought to be broken up. Remember that you are talking of over 70% of the population in those areas as well. Take a look your own figures. Consistently, about 70% has been spent where roughly 70% of the people are.

You cannot take the west as one thing alone either. For example, unemployment levels in Manitoba are substantially lower than in most of the country, and have consistently been lower than in most of the country. So again, you cannot take western Canada and say well, that is the way it is.

Prof. Phillips: I whole-heartedly agree. The problem is that the figures are given at a provincial level, because that is the way they are collected and disseminated. But where we are able to break them down—for instance, in science and technology expenditures—they are not going to the underdeveloped parts of Quebec or Ontario. Where we can break them down, they are going to the developed parts. There is even a concentration of those expenditures—

The Chairman: I am not so sure at all. Here I have your regional economic development distribution grants by region. You have in Atlantic Canada, 1985-86, 15.2%; Quebec, 50.1%; Ontario, 19.4%; the Prairies, 7.4%; British Columbia, 6.5%. It is all very interesting to say well, 69% went to central Canada; but as I told you, there was massive unemployment at that point in regions of Quebec where there are very substantial populations.

Prof. Phillips: First of all, as you will note, there is a decline in the total regional development expenditures over that period.

The Chairman: Oh, sure, and most of that decline, if you will take a look from 1984-85... There is a very substantial move from expenditures in Ontario to expenditures in Quebec and elsewhere. In other words, when Ontario started growing and getting going... And these were 1984-85, 1985-86 figures; you do not have any 1986-87.

[Translation]

vont aux régions, où les dépenses ont été excessives. On peut ainsi utiliser les garanties de prêt et les politiques fédérales pour accroître les dépenses régionales. Il serait illogique de les concentrer en Ontario et au Québec.

Le président: Le problème, c'est que la situation de l'Ontario et du Québec n'est pas toujours constante. Dans certaines régions du Québec, on retrouve le taux de chômage le plus élevé au Canada.

M. Phillips: J'en suis conscient.

Le président: Je parle notamment de la côte nord, sans oublier certaines régions du nord de l'Ontario, où la situation est plutôt noire. Alors on se demande s'il ne faudrait pas répartir ces grandes régions. N'oubliez pas qu'on parle aussi de plus de 70 p. 100 de la population de ces régions. Regardez vos propres statistiques. Généralement, environ 70 p. 100 des fonds ont été dépensés dans les régions où vit près de 70 p. 100 de la population.

Vous ne pouvez pas non plus parler de l'Ouest comme si ce n'était qu'une entité. Par exemple, au Manitoba, le taux de chômage est considérablement et régulièrement inférieur à la majeure partie du reste du pays. C'est pourquoi vous ne pouvez pas prendre l'Ouest du pays et dire, voilà, c'est comme cela que se passent les choses.

M. Phillips: Je suis entièrement d'accord. Le problème, c'est que les chiffres sont au niveau provincial, puisque c'est ainsi que les statistiques sont recueillies et communiquées. Mais lorsqu'une ventilation est possible—par exemple, dans le cas des dépenses pour la science et la technologie—il devient évident que les fonds ne vont pas aux régions défavorisées du Québec ou de l'Ontario. Là où une ventilation est possible, on s'aperçoit que l'argent va aux régions favorisées. Il y a même une concentration de ces dépenses...

Le président: Je n'en suis pas du tout convaincu. J'ai ici la distribution des subventions au titre du développement économique régional par région: pour 1985-86, dans la région de l'Atlantique, 15,2 p. 100; le Québec, 50,1 p. 100; l'Ontario 19,4 p. 100; les Prairies 7,4 p. 100; la Colombie-Britannique 6,5 p. 100. C'est bien beau de dire que le centre du Canada a obtenu 69 p. 100 des subventions, mais comme je vous l'ai déjà dit, à ce moment là, certaines régions des plus peuplées du Québec avaient un taux de chômage extraordinairement élevé.

M. Phillips: Premièrement, vous conviendrez qu'il y a eu une baisse des dépenses globales au titre du développement régional pendant cette période.

Le président: Bien sûr, et si vous prenez les chiffres de 1984-85, vous constaterez que le gros de cette baisse—Une forte proportion des subventions accordées à l'Ontario sont maintenant versées au Québec et ailleurs. En d'autres termes, lorsque l'expansion économique de l'Ontario a démarré—Et il s'agit ici des chiffres de 1984-85 et de 1985-86. Vous n'avez rien pour 1986-87.

[Texte]

Prof. Phillips: They have not released those.

The Chairman: I appreciate that, but when you take a look at the trend you note that there is a massive reduction in the Ontario expenditure and the money is split elsewhere. Sure there is perhaps less money, but not substantially less money.

Prof. Cameron: If we could just get back to Mr. Cassidy's question, the issue of having a differential monetary policy is basically an issue of having cross-subsidization. What this committee discovered in 1982, when it investigated bank profits, was that in the period leading up to the generalized floating rates for every kind of loan, when interest rates just went on this sort of secular increase, people who had borrowed at long rates of interest were in a sense doing very well because the market rate had gone substantially above that. So the banks were hitting new customers to recoup what they were losing from their bad decisions.

So I would suggest that there is always some element of cross-subsidization going on within the financial system. The real question is who decides it. Right now, who decides it is very clear: six head offices in Toronto and Montreal make those decisions. I would certainly much prefer to see a more decentralized financial system. I do not know how you would get the banks to do that, but I grew up in Alberta and there was always the feeling that we were subsidizing eastern Canada through our banking system. I suspect that there is still that feeling.

How do you do it? The Germans, for instance, say that a bank has to have so much of its loans in mortgages, and they believe that a house is a different kind of an asset from say a car.

The Chairman: We have virtually that situation.

Prof. Cameron: So they have a cross-subsidization. Where you would have to pay above market rate for a car loan, you would get a below-market rate for a housing loan.

There must be enough ingenuity to figure out some way of getting some kind of cross-subsidization going in monetary policy on a regional basis and making it more attractive for regional development, and I do not see why that should not be explored.

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Mr. McCrossan: Let us examine the thesis that real interest rates should be reduced and let us look at the reality. Face is often just as important in continuing to do one's job effectively.

What sort of decrease in the annual deficit numbers would the Governor of the Bank of Canada need to announce that he could point to a significant reduction in

[Traduction]

M. Phillips: Ces chiffres n'ont pas encore été publiés.

Le président: Je veux bien, mais si l'on regarde la tendance, on s'aperçoit qu'il y a eu une réduction massive des fonds attribués à l'Ontario et que cet argent est réparti ailleurs. Il y a peut-être effectivement moins d'argent, mais pas beaucoup moins.

M. Cameron: Revenons à la question de M. Cassidy. La question des variantes dans la politique monétaire est en fait une question d'interfinancement. Lorsque votre comité, en 1982, à examiner la question des bénéfices réalisés par les banques, il s'est aperçu que, pendant la période menant à la généralisation des taux d'intérêt variables pour tout les genres de prêt, lorsque ces taux ne faisaient que suivre les augmentations périodiques, les gens qui avaient emprunté à des taux fixés pour de longues périodes avaient en fait très bien fait, puisque le taux officiel avait considérablement dépassé le taux qu'ils payaient. Les banques récupéraient ainsi chez les nouveaux clients ce qu'elles avaient perdu à cause de leurs mauvaises décisions.

C'est pourquoi j'estime qu'il y aura toujours un certain élément d'interfinancement à l'intérieur du système financier. Ce qu'il faut savoir, c'est qui prend les décisions. À l'heure actuelle, c'est très clair: ce sont les six sièges sociaux à Toronto et à Montréal qui prennent ces décisions. Je préférerais nettement un système financier plus décentralisé. Je ne sais pas comment vous pourriez convaincre les banques d'y accéder, mais j'ai grandi en Alberta, où nous avons toujours l'impression de subventionner l'est du pays grâce à notre système bancaire. J'ai l'impression d'ailleurs que ce sentiment existe encore.

Comment faire? Les Allemands, par exemple, ont décrété qu'une partie des prêts consentis par une banque doit être constituée d'hypothèques, et qu'une maison est un élément d'actif différent d'une voiture, par exemple.

Le président: C'est à peu près la même situation chez nous.

M. Cameron: Ainsi, ils ont un système d'interfinancement. Si un prêt automobile vous coûte plus que le taux du marché, une hypothèque vous en coûtera moins.

Il faut faire preuve d'ingénuité pour trouver moyen d'intégrer un système d'interfinancement régional dans la politique monétaire pour stimuler le développement régional, et je ne vois pas pourquoi nous ne pourrions pas examiner cette possibilité.

M. McCrossan: Prenons la théorie selon laquelle il faudrait réduire les taux d'intérêt véritable, et voyons la réalité. Il est souvent tout aussi important de ne pas perdre la face tout en continuant de bien faire son travail.

De combien faudrait-il réduire le déficit annuel avant que le gouverneur de la Banque du Canada puisse justifier un assouplissement de la politique monétaire? En d'autres

[Text]

the deficit and ease monetary policy? In other words, would a decline from 29 to 27 be sufficient to make it stick, does he need to look at a 24 number?

As Mr. McCracken said earlier, we have had this game of chicken being played by the North American central bankers against the North American governments. One way to end the game of chicken is for everybody to declare he has won. That is seriously one way out of it.

What sort of reduction in deficit would provide a clear enough signal that the central banker could move without incurring a sort of run? I guess the converse of that is, in the absence of such a signal, are we not into the Mitterrand situation, where the central bank moved in the absence of it, and what happened was a spectacular run on the currency?

Prof. Cameron: That is a very interesting question, Mr. McCrossan. First of all, I do not think the Governor of the Bank of Canada is all that concerned about the deficit. I think what concerns him is the rate of increase in prices, period. If you had a surplus and 4% inflation, he would still be concerned about inflation. He now sees the deficit as a cause of inflation, but if there were not a deficit, and there was inflation, he would still be after inflation.

I think the root thing is inflation. I think what the governor is thinking is that Canada's inflation rate is basically imported from the United States, that we import it to the extent our dollar is not firming up with respect to the U.S. dollar.

If you ask me why we have high interest rates in Canada, and what we can do to get them down, what would satisfy the governor, I think you must first look at the American situation, and the American situation is that Reagan, for whatever reason, decided to cut taxes and increase military spending at the same time. The bankers of this world, particularly on Wall Street, said fine, but you are going to pay a price for it. The price they put on selling government paper was a very high real interest rate. I think that is at the origin of the high interest rates in Canada and around the world. This ultimately explains much of the world recession of 1982, and what has in fact been a sluggish recovery everywhere, except the United States, and has led to the international problem.

What would satisfy Mr. Crow on the inflationary performance on the macro-side from government I think is almost secondary. He is going to look at the price level and fixate on that.

In our book, we have a paper from a market economist at the University of British Columbia. He argues there is such an extent of price control by the major corporations in Canada that one should consider the introduction of selective price controls for those companies, and that

[Translation]

termes, est-ce qu'une baisse de 29 à 27 suffirait pour le justifier, ou devrait-on attendre à ce qu'il baisse à 24?

Comme M. McCracken l'a indiqué plus tôt, les chefs des grandes banques centrales nord-américaines ne cessent de proférer des menaces contre les gouvernements nord-américains. Une façon de mettre fin à ce jeu est de déclarer tout le monde gagnant. Ce serait une possibilité à envisager sérieusement.

De combien faudrait-il réduire le déficit pour que le président de la Banque centrale soit certain de pouvoir réagir sans causer une ruée de demandes de remboursement? À l'inverse, sans indication claire de ce genre, ne risquons-nous pas de nous retrouver dans la situation de la France, où la banque centrale a réagi sans cette indication, causant une ruée spectaculaire sur la devise française.

M. Cameron: C'est une question très intéressante, monsieur McCrossan. Premièrement, je doute que le gouverneur de la Banque du Canada s'inquiète autant que cela du déficit. Ce qui l'intéresse plutôt, c'est le rythme de l'augmentation des prix, un point c'est tout. Si l'économie accusait un surplus et un taux d'inflation de 4 p. 100, il s'intéresserait toujours à l'inflation. Pour lui, le déficit est une cause d'inflation, mais s'il n'y avait pas de déficit, et qu'il y avait quand même de l'inflation, il chercherait quand même à l'éliminer.

Le problème fondamental est l'inflation. Je crois que de l'avis du gouverneur, le taux d'inflation canadien nous vient essentiellement des États-Unis, et nous l'importons dans la mesure où notre dollar ne reprend pas le dessus face au dollar américain.

Si vous voulez savoir pourquoi les taux d'intérêt sont élevés au Canada, et ce que nous pouvons faire pour les rabaisser, ce qui conviendrait au gouverneur, je vous dirais qu'il faut d'abord examiner la situation américaine: M. Reagan a décidé, pour une raison ou une autre, de réduire les impôts tout en augmentant les dépenses militaires. Les banquiers de ce monde, particulièrement ceux de Wall Street, ont dit très bien, mais vous allez devoir payer pour que nous vendions les titres émis par le gouvernement. Et ce prix, c'était un taux d'intérêt très élevé. À mon avis, cette décision est à l'origine des taux d'intérêt élevés au Canada et partout à travers le monde. Cela explique aussi une bonne partie de la récession mondiale de 1982, et ce qui s'est traduit par un ralentissement de la relance partout, sauf aux États-Unis, et qui a causé le problème à l'échelle internationale.

Ce qui plairait à M. Crow dans la performance inflationniste du gouvernement, côté macro-économique, n'est que secondaire. Pour lui, le niveau des prix va devenir une fixation.

Nous avons entre autres un rapport préparé par un économiste commercial à l'Université de la Colombie-Britannique. Dans son document, il soutient que le contrôle des prix exercé par les grandes sociétés canadiennes est tel qu'il faudrait envisager d'imposer des

[Texte]

would in fact improve market performance. That may be politically unacceptable to many people. I do not know of any political party in Canada proposing price controls, but it would be one way of getting the actual level of prices down. Unless we have a perfectly competitive economy, I do not think prices are going to come down unless you have a depression. I do not think that is a problem.

Mr. McCrossan: Having seen what rent controls have done to Metro Toronto, I just cannot accept your thesis. I have real difficulty swallowing that the American experience has led to high interest rates around the world. When you look at the German or Japanese interest rates, they are not high real interest rates at all. Sure, it has spilled over into the countries that are running high deficits or that have to run high interest rate policies; but the healthy economies do not have to run high interest rate policies at all.

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Prof. Cameron: I was referring to the Euro-currency markets and the rates... the LIBOR rate, for instance, the London Inter-Bank Market Offered Rate, which really is a reflection of the Wall Street rate, rather than the individual circumstances of particular surplus countries that are overflowing in dollars.

Mr. McCrossan: It looks as if Mr. Greenspan is taking steps to tease on the American rate, but Mr. Crow does not appear to be taking the same steps. So the BA spreads are increasing fairly significantly.

Obviously the Fed publishes its minutes months later. Do you agree with the assessment that the Fed has made a deliberate decision at this point to ease these rates in the States? If so, what are the economic consequences for Canada if Canada maintains absolute rates and allows relative spreads to increase, as it has been doing for the last year?

Prof. Cameron: I am unconvinced that there has been a dramatic shift in U.S. monetary policy, other than to accommodate the situation past October 19. I think there was a need to inject liquidity into the system. The central banks around the world responded and did inject liquidity. That explains some of what we have seen in November and December.

Mr. McCrossan: But essentially we started withdrawing that liquidity on a fairly steady basis; but it appears in the last several weeks that liquidity is being added to the system again. Do you not accept that observation?

Prof. Cameron: I certainly do accept it, and I think there is concern about a recession in the United States, probably rightly so, although I see Mr. McCracken was a little more optimistic than I might be. I think it is a good

[Traduction]

contrôles des prix sélectifs à ces compagnies, ce qui améliorerait la performance du marché. Politiquement, cette solution risque d'être inacceptable pour bien des gens. À ma connaissance, aucun parti politique canadien ne veut proposer le contrôle des prix, mais ce serait une façon de réduire le niveau réel des prix. À moins d'avoir une économie parfaitement compétitive, ou une dépression—ce qui ne sera pas un problème—je doute que les prix commencent à baisser.

M. McCrossan: Après avoir vu le résultat du contrôle des loyers dans la région métropolitaine de Toronto, je ne peux pas accepter votre raisonnement. J'ai beaucoup de mal à croire que l'expérience américaine a entraîné une augmentation des taux d'intérêt à travers le monde. Si l'on prend par exemple les taux d'intérêt allemands ou japonais, on ne pourrait pas les qualifier d'élevés. Il y évidemment eu des conséquences dans les pays qui ont des déficits élevés ou qui ont des politiques visant à maintenir les taux d'intérêt élevés; cependant, les pays qui ont des économies saines n'ont pas à maintenir ces politiques.

M. Cameron: Je parlais du marché des eurodollars et des taux—les taux LIBOR, par exemple, les taux interbancaires moyen des eurodollars à Londres, qui reflètent en réalité le taux de Wall Street, plutôt que les circonstances particulières des pays qui ont des surplus et qui regorgent de dollars.

M. McCrossan: M. Greenspan semble prendre des mesures pour influencer légèrement le taux américain, mais M. Crow ne semble pas l'imiter. L'écart BA s'accroît encore plus.

La Fed publie ses procès-verbaux avec un décalage de plusieurs mois. Êtes-vous d'accord cependant avec l'opinion selon laquelle la Fed a carrément décidé à ce moment-ci de réduire les taux américains? Le cas échéant, quelles sont les conséquences économiques pour le Canada si celui-ci maintient ses taux absolus et permet l'écart relatif de s'accroître, comme il l'a fait au cours de la dernière année?

M. Cameron: Je ne suis pas convaincu qu'il y ait eu un coup de barre dans la politique monétaire américaine, sauf peut-être pour ce qui a été des accommodements nécessaires à la suite de ce qui s'est passé le 19 octobre. Il était nécessaire d'injecter des liquidités dans le système. Les banques centrales du monde ont réagi et ont injecté des liquidités. C'est ce qui explique ce que nous avons vu en novembre et en décembre.

M. McCrossan: Nous retirions ces liquidités de façon régulière; cependant, au cours des dernières semaines, il semble qu'il y en ait eu d'ajoutées encore une fois au système. Ne faites-vous pas la même constatation?

M. Cameron: Oui, et c'est parce qu'on craint une récession actuellement aux États-Unis, probablement à juste titre, même si M. McCracken s'est montré plus optimiste que moi à ce sujet. Je pense qu'il est indiqué

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trend if the Federal Reserve does decide to keep liquidity in the system to try to buoy up an economy that has been expanding for almost a record period of time.

About the impact on Canada, I think if we see the kind of widening interest rate differentials on treasury bill rates, for instance, that we have seen for the last while in Canada, the governor will put Canada into a recession. He is creating, he is cooking up, deflation in 1988, and it will hit those areas that are already in depressed circumstances, and it will eventually hit Toronto and Montreal as well.

Mr. McCrossan: Let me put my final question right to the point. Can the governor, by pursuing this policy, undo completely the benefits of the free trade agreement—in other words, make it of net negative benefit to Canada?

Prof. Cameron: Absolutely. The job benefits available from Mike McCracken's lowering of interest rates exceed those available from the free trade agreement in a five-year period. So he could most definitely undo the effects. Simply on the export side he could undo them.

Mrs. Collins: Although, Dr. Cameron, most of your brief deals with the issue of interest rates, I want to touch on some other areas of economic policy. I might just say I was a little disturbed by some of your comments, which seem to me to impute motivations to the Governor of the Bank of Canada that I do not think are fair. I think he has a legitimate view, as you have your own view, about the best way to manage the economy, all with the objective of having steady economic growth. There are differing opinions about the balance of interest rates and fiscal policy.

Coming back to some of your comments, it would seem to me some of the things you have said would lead to increasing government expenditures if one were to pursue some of the programs. In terms of overall economic policy, do you indeed advocate increased government expenditures, and if so, with what balance: by increasing the deficit or increasing taxation? What route do you suggest?

Prof. Cameron: That is a very fair question. In our book there is a paper by Diane Bellemare and Lise Poulin Simon, two very eminent women economists in Quebec, and they point out the cost to the economy of unemployment. For instance, if I can use a bit of economic jargon, Arthur Hockin, an eminent American economist, used to point out that if you could reduce the rate of unemployment by 1% you could increase economic growth by 2% to 4%. So the cost to the Canadian economy of being below full employment level is higher than any other cost that exists. There are direct costs to this: unemployment insurance expenditures, social welfare expenditures. These direct costs are reduced when employment goes up.

[Translation]

que la Federal Reserve injecte des liquidités dans le système pour essayer de relancer une économie qui est en expansion presque depuis un temps record.

En ce qui concerne les conséquences au Canada, je pense que si l'écart dans les taux d'intérêt pour les bons du Trésor, par exemple, continue de s'accroître, et c'est ce que nous avons fait au Canada au cours des derniers temps, le gouverneur risque d'entraîner le Canada dans une récession. Il prépare la déflation en 1988, laquelle déflation touchera les régions qui fonctionnent au ralenti actuellement et en viendra à toucher également Toronto et Montréal.

M. McCrossan: Ma dernière question est directe. En maintenant cette politique, le gouverneur peut-il neutraliser les avantages de l'accord de libre-échange, en d'autres termes, faire en sorte qu'il n'y ait que des désavantages pour le Canada?

M. Cameron: Certainement. Les avantages pour l'emploi découlant de la réduction des taux d'intérêt par Mike McCracken dépassent les avantages qui pourraient découler de l'accord de libre-échange sur une période de cinq ans. Donc, les avantages pourraient certainement être neutralisés en ne tenant compte que des exportations.

Mme Collins: Je sais que la plus grande partie de votre mémoire porte sur les taux d'intérêt, monsieur Cameron, mais j'aimerais aborder d'autres aspects de la politique économique. Je dois dire que certains de vos propos m'ont quelque peu inquiétée; vous avez semblé prêter des intentions au gouverneur de la Banque du Canada, et je ne pense pas que ce soit juste. Il a ses propres vues, comme vous avez les vôtres, sur la meilleure façon de gérer l'économie, avec comme objectif une croissance économique soutenue. Pour ce qui est de l'équilibre entre les taux d'intérêt et la politique fiscale, les opinions peuvent diverger.

Pour revenir à vos propos, vous proposez un certain nombre de programmes, qui pourraient entraîner une augmentation des dépenses pour le gouvernement. Dans le cadre d'une politique économique globale, vous proposez vraiment une augmentation des dépenses du gouvernement? Si oui, comment? En augmentant le déficit ou en augmentant les impôts? Quelle orientation proposez-vous?

M. Cameron: C'est une très bonne question. Dans notre documentation, il y a un document préparé par Diane Bellemare et Lise Poulin Simon, deux femmes économistes très bien connues au Québec, dans lequel elles soulignent le coût du chômage pour l'économie. Par exemple, si vous me permettez d'utiliser un peu de jargon économique, M. Arthur Hockin, économiste américain de renom, disait que si vous réduisiez le chômage de 1 p. 100, vous augmenteriez la croissance économique de 2 à 4 p. 100. Le fait que l'économie canadienne soit en-deçà d'un niveau de plein emploi est donc le coût le plus élevé. Il y a des coûts directs à cela, notamment ceux correspondant à l'assurance-chômage et au bien-être social. Ces coûts directs diminuent lorsque l'emploi augmente.

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So how do you get employment up? I think that a co-ordinated policy, with annual increases in public investment, is probably the best, surest way to decrease unemployment in Canada. This is true if this public investment is thought of not in terms of how labour-intensive are the expenditures, or how much of the money is actually going into salaries, which is going to feed itself back into the economy. What is in fact the multiplier effect?

My concern with the deficit is not so much the absolute level of the deficit. I am totally persuaded by Mike McCracken's perspective that there is a cyclical component and there is a structural component. My concern is more on the deficit side. How is the deficit being financed? I think the deficit is being financed in a sort of unusual and unacceptable way, through a series of tax expenditures, if you wish. These were provided in the past, when the Liberal government introduced them, to individuals. They have also been provided to corporations as the basis of our industrial strategy.

We have all these deferred taxes on the books, as you know. In a sense, this is the way the deficit is being financed, by borrowing money instead of taking tax money. I think the higher income people in Canada are in fact undertaxed and the lower income people are overtaxed. That is my basic view of what we are doing.

Mrs. Collins: Would you increase taxes generally?

Prof. Cameron: For higher-income people, I have no problem at all in increasing taxes-

Mrs. Collins: To what kinds of levels?

Prof. Cameron: My real concern is that there be a public investment program, stated fully as a public investment over a term and with a benefits expected to accrue in the future. It makes no sense to wait until you have \$120,000 in order to buy a \$120,000 house. If you are going to live in the house for 30 years, you get the down payment, buy it today and pay for it over 20 years. It is the same idea with public investment. If you are going to use a bridge for 20 years, pay for it over 20 years. I think we could use a nice public investment account.

Now, most economists believe that government spending is not productive. They tend to treat all government spending indifferently, and it does not matter whether it is unemployment insurance, which pays people not to work, or a theatre that is going to employ a lot of people. In fact, a theatre will cover its costs if it is done properly. I think that is the major mistake.

Prof. Phillips: I would like to add to that. If you look at the rise of the deficit, most of this was due to a decline in

Alors comment faire pour que l'emploi augmente? Une politique coordonnée, avec des augmentations annuelles de l'investissement public, serait sans doute la formule la meilleure et la plus sûre pour réduire le chômage au Canada. Cela vaut si l'intérêt public est perçu non pas en fonction de la main-d'oeuvre qui sera consacrée aux dépenses ni de l'argent qui sera véritablement consacré aux salaires, et qui retournera dans l'économie. . . quel est en fait l'effet multiplicateur?

Ce qui me préoccupe avec le déficit, ce n'est pas tant le niveau absolu de ce dernier. Je suis entièrement convaincu par la perspective de Mike McCracken selon laquelle il y a une composante cyclique et une composante structurale. Ce qui m'inquiète le plus, c'est plutôt le côté déficit. Comment ce déficit est-il financé? Je pense qu'il est financé d'une façon assez peu habituelle et assez inacceptable, avec, si vous voulez, une série de dépenses fiscales. Ces déductions étaient offertes aux gens par le passé; c'est le gouvernement libéral qui les avaient instaurées. Elles ont également été consenties aux sociétés, dans le cadre de la stratégie industrielle.

Comme vous le savez, il y a sur les livres, toutes sortes d'impôts reportés. Dans un certain sens, c'est de cette façon que le déficit est financé: On emprunte de l'argent au lieu de percevoir des impôts. Je pense d'ailleurs qu'au Canada les personnes qui ont les plus gros revenus ne paient pas assez d'impôt, tandis que ceux qui sont en bas de l'échelle en paient trop. C'est en tout cas de cette façon que je vois les choses.

Mme Collins: Augmenteriez-vous l'impôt de façon générale?

M. Cameron: Pour les personnes à revenu élevé, cela ne m'ennuierait pas du tout qu'on augmente l'impôt. . .

Mme Collins: Jusqu'à quel genre de niveau?

M. Cameron: Ce à quoi je tiens, c'est qu'il y ait un programme d'investissements publics avec une échéance et des profits devant s'accumuler à l'avenir. Il ne sert à rien d'attendre d'avoir 120,000\$ en poche pour acheter une maison de 120,000\$. Si vous allez vivre dans la maison pendant 30 ans, vous accumulez le dépôt, vous l'achetez aujourd'hui et vous la payez sur 20 ans. C'est la même idée qui vaut pour l'investissement public. Si vous allez utiliser un pont pendant 20 ans, il est logique de le payer sur 20 ans. Je pense que cela nous ferait du bien d'avoir un bon petit compte d'investissements publics.

La plupart des économistes croient que les dépenses gouvernementales ne sont pas productives. Ils ont tendance à ne faire aucune distinction entre les différentes dépenses gouvernementales, peu importe qu'il s'agisse d'assurance-chômage, qui paie les gens pour ne pas travailler, ou un théâtre qui va employer beaucoup de gens. D'ailleurs, un théâtre rentrera dans ses frais s'il est bien administré. Je pense que c'est là la grosse erreur.

M. Phillips: J'aimerais ajouter quelque chose à cela. Regardons l'augmentation du déficit: Le gros de cette

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revenue rather than an increase in government expenditures. This is directly proportional to the rise in unemployment. If you can lower the rate of unemployment, you can lower the deficit quite considerably. Of course, if you can also lower the interest rates, you can lower the cost of financing the deficit. We are "Brazilling" our own deficit by our high interest rate policies.

Mrs. Collins: So would you share Mr. Cameron's perspective that we should increase this government's expenditures?

Prof. Phillips: It is partly a matter of increasing them and how you are financing them. There is also the regional allocation of them. We are facing this kind of problem, and I will use Winnipeg as an example. The infrastructure, and roads in particular, is declining. Our real stock of transportation is declining. It seems to me that is the kind of area where the expenditure would bring in its own revenue to pay for it by lowering the unemployment rate. It would allow us to increase the overall economy not just in central Canada but also in the so-called golden horseshoe.

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Mr. Cassidy: I would like to ask one specific question of both Professor Cameron and of Professor Phillips, and it is this: In addition to the fiscal policy measures you have suggested, such as municipal infrastructure and such as enhancing the work of the Federal Business Development Bank, is it an option to have some kind of selective taxation that would seek to cool off the overheating in central Canada, and whose proceeds could be used to effectively enhance activity in the hinterland regions? I mean a selective employment tax, some other kind of tax that effectively would disadvantage further investment or development in central Canada, but because it was not applied or it was used to in fact promote development could therefore help to encourage the movement of industry and jobs to other regions.

Prof. Cameron: It is tempting to propose a special tax measure for Mississauga, but I think that if the committee looks carefully at what has been going on in Toronto. . . I am told the Canadian Labour Market and Productivity Centre is going to put out a report showing that wages and so on are under control in Toronto and in southern Ontario. There in fact may not be overheating in that area. But if you assume there would be, there would be room, I think, for an income surtax on. . . let us say you could go by postal code, but it would be administratively difficult, and I am not sure it is the sort of measure you would want to consider.

The Chairman: It would be quickly passed on, in all probability, to areas of unemployment.

[Translation]

augmentation est imputable à une baisse des revenus plutôt qu'à une augmentation des dépenses gouvernementales. Cela est directement proportionnel à l'augmentation du chômage. Si l'on pouvait réduire le taux de chômage, cela réduirait sensiblement le déficit. Bien sûr, si vous pouviez également réduire les taux d'intérêt, vous pourriez réduire ce que coûte le financement du déficit. Nous sommes en train de «brésiliser» notre propre déficit avec nos politiques de maintien de taux d'intérêt élevés.

Mme Collins: Vous seriez donc du même avis que M. Cameron, qui pense que nous devrions augmenter ces dépenses gouvernementales, n'est-ce pas?

M. Phillips: Il y a le fait de les augmenter et il y a également la façon dont vous les financez. Enfin, il y a la distribution régionale. Nous nous trouvons déjà confrontés à ce genre de problèmes, et je vais utiliser la ville de Winnipeg à titre d'exemple. L'infrastructure, et tout particulièrement les routes, est en déclin. Notre stock réel en matière de transport est à la baisse. Il me semble qu'avec ce genre de choses, les dépenses rapporteraient des revenus qui les financeraient, et ce en réduisant le taux de chômage. Cela nous permettrait d'améliorer l'économie dans son ensemble, et ce pas uniquement dans le centre du pays, mais également dans ce que l'on appelle le fer à cheval doré.

M. Cassidy: J'aimerais poser une question précise à M. Cameron et à M. Phillips. En plus des mesures de politique fiscale que vous avez suggérées, comme l'infrastructure municipale et la valorisation de la Banque fédérale de développement, pensez-vous que ce serait une bonne idée d'imposer un impôt sélectif pour lutter contre la surchauffe dans le centre du pays et de se servir de ces recettes pour réactiver l'arrière-pays? Je pense à un impôt sélectif sur l'emploi qui ralentirait les investissements ou le développement du centre du pays et encouragerait l'industrie à s'implanter et à créer des emplois ailleurs.

M. Cameron: Il est tentant de proposer un impôt spécial pour Mississauga, mais je pense que si le Comité étudie soigneusement ce qui se passe à Toronto. . . On me dit que le Centre canadien du marché du travail et de la productivité va publier un rapport montrant que l'on a la haute main sur les salaires et autres facteurs connexes à Toronto et dans le sud de l'Ontario. Il n'y a peut-être pas de surchauffe dans cette région, après tout. Mais si vous pensez qu'il y a place pour une surtaxe sur le revenu. . . on pourrait se servir du code postal, mais ce serait difficile du point de vue administratif et je ne suis pas certain que ce soit le genre de mesure à envisager.

Le président: Selon toute vraisemblance, cela se répercuterait dans les régions où sévit le chômage.

[Texte]

You suggested the use of Public Works, in effect to develop the unemployed areas. You realize, of course, that the municipal study you are talking about is talking about the need for new infrastructure in Halifax, where there is a lot of employment—everything is going full blast in Halifax. The same in Montreal—everything is going full blast. Now, you put all this new money in there and what you do is you stimulate areas of present good employment conditions.

Prof. Cameron: We would never do that. I would only suggest the government take the initiative to bring the parties together and agree that you start in the highest unemployment areas and you work down. That is the only basis on which I would support it.

The Chairman: If you take a look at that study, though, the municipal thing, you will find that if you add up the money, you are talking of 90% to 95% being demanded in areas where they have huge growth problems. That is why they want additional contributions from the feds. They are prepared to pay their own one-third, you see, and the provinces are prepared to pay the one-third, and they are trying to get us into the business. Why can they pay their one-third? Well, simple—they have lots of cash.

Prof. Cameron: I do not think I would take it too seriously when the Mayor of Toronto and the Mayor of Montreal demand equal financing with the smaller municipalities. But I understand for political reasons that they sort of joined together in solidarity and want money for all their places. But I think a good negotiator sits down at the table and says: Well, we know what is going on in Toronto, we know what is going on in Halifax; let us start with Hinton, Alberta, or let us start with—

The Chairman: You have never dealt with Hazel McCallion.

Prof. Cameron: Maybe I have not, but I... She is supporting you on free trade, so—

Prof. Phillips: Can I point out that the one example where there was a differential tax and expenditure policy on a regional basis was in Sweden? There they used a tax surcharge, which was refunded when it was tied to regional investment. It was very successful in reducing it, until they designated every part of the country, for political reasons, political boondoggles, as depressed. But as long as it was kept properly held as a regional development policy for lesser developed regions, it was very successful. So I think it is possible to devise this kind of successful regional policy.

Mr. Cassidy: So it has to be focused.

Prof. Phillips: Yes.

The Chairman: The next meeting of the committee will be Tuesday, February 9. That is a future business meeting. We have the committee's budget, details in connection with our trip to New Zealand, and I want a discussion as to future meetings after that is completed. The meeting is at 3.30 p.m.

[Traduction]

Vous avez suggéré de recourir aux Travaux publics pour mettre en valeur les régions où il y a du chômage. Vous vous rendez compte, j'en suis sûr, que dans l'étude sur les municipalités dont vous parlez il est question de la nécessité de mettre en place une nouvelle infrastructure à Halifax, là où il y a beaucoup d'emplois—actuellement, ça boume à Halifax. C'est la même chose à Montréal: ça turbine fort. Cet influx financier n'aboutira qu'à stimuler les régions où la situation de l'emploi est bonne.

M. Cameron: Jamais. Je trouve seulement que le gouvernement devrait prendre l'initiative pour rapprocher les parties et s'entendre pour commencer là où le chômage est le plus fort. C'est à cette seule condition que je serais d'accord.

Le président: Si vous examinez cette étude sur les municipalités, si on additionne tout l'argent, on s'aperçoit que 90 à 95 p. 100 de la demande provient de régions qui connaissent de gros problèmes de croissance. C'est la raison pour laquelle elles réclament du gouvernement fédéral des contributions supplémentaires. Elles sont disposées à en acquitter le tiers, les provinces aussi, et elles essaient de nous mettre dans le coup. Pourquoi peuvent-elles en acquitter le tiers? Simple: elles sont pleines aux as.

M. Cameron: Je ne prendrais pas cela très au sérieux lorsque le maire de Toronto et le maire de Montréal demandent le financement à parts égales avec les municipalités plus petites. Pour des raisons de politique et de solidarité, je crois savoir qu'elles font front commun pour obtenir de l'argent de partout. Dans ce cas-là, un bon négociateur dit aux parties: «eh bien, nous savons ce qui se passe à Toronto, nous savons ce qui se passe à Halifax, commençons par Hinton en Alberta ou...»

Le président: Vous n'avez jamais eu affaire à Hazel McCallion.

M. Cameron: Peut-être pas, mais... Elle est d'accord avec vous sur le libre-échange, alors...

M. Phillips: Me permettez-vous de vous signaler qu'il n'y a qu'en Suède où on a essayé d'appliquer une politique fiscale et de dépenses différente selon les régions? Il s'agissait d'une surtaxe fiscale qui était remboursée en échange d'investissements dans les régions. Cela a très bien marché jusqu'à ce que toutes les parties du pays soient désignées régions à économie déprimée uniquement pour des raisons de politique. Mais tant que cela s'est appliqué aux régions moins développées, cela a très bien marché. Je pense donc qu'il est possible de concevoir une politique régionale de ce genre qui marche.

M. Cassidy: Mais il faut bien choisir ses cibles.

M. Phillips: Oui.

Le président: La prochaine séance du Comité se tiendra le mardi 9 février. Il y sera question de nos travaux futurs. Nous parlerons du budget du Comité, des préparatifs en vue de notre voyage en Nouvelle-Zélande et des séances que nous aurons après le voyage. La séance se tiendra à 15h30.

[Text]

This meeting is now adjourned.

[Translation]

La séance est levée.



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WITNESSES

From Informetrica Limited:

Michael McCracken, President.

From the University of Manitoba:

Paul Phillips, Professor.

From the University of Ottawa:

Duncan Cameron, Professor.

TÉMOINS

De Informetrica Limited:

Michael McCracken, président.

De l'Université du Manitoba:

Paul Phillips, professeur.

De l'Université d'Ottawa:

Duncan Cameron, professeur.

HOUSE OF COMMONS

Issue No. 140

Wednesday, March 2, 1988

Chairman: Don Blenkarn

CHAMBRE DES COMMUNES

Fascicule n° 140

Le mercredi 2 mars 1988

Président: Don Blenkarn

*Minutes of Proceedings and Evidence of the
Standing Committee on*

*Procès-verbaux et témoignages du Comité
permanent des*

Finance and Economic Affairs

Finances et des affaires économiques

RESPECTING:

Main Estimates 1988-89: Vote 35 under
FINANCE—Superintendent of Financial
Institutions

CONCERNANT:

Budget des dépenses principal 1988-1989: Crédit 35
sous la rubrique FINANCES—Surintendant des
institutions financières

WITNESSES:

(See back cover)

TÉMOINS:

(Voir à l'endos)

Second Session of the Thirty-third Parliament,
1986-87-88

Deuxième session de la trente-troisième législature,
1986-1987-1988

STANDING COMMITTEE ON FINANCE AND
ECONOMIC AFFAIRS

Chairman: Don Blenkarn

Vice-Chairman: Robert E.J. Layton

Members

Bill Attewell
Michael Cassidy
Mary Collins
Simon de Jong
Murray Dorin
Raymond Garneau
Paul McCrossan
George Minaker
Aideen Nicholson
Marcel R. Tremblay
Norman Warner

(Quorum 7)

Marie Carrière
Clerk of the Committee

COMITÉ PERMANENT DES FINANCES ET DES
AFFAIRES ÉCONOMIQUES

Président: Don Blenkarn

Vice-président: Robert E.J. Layton

Membres

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Raymond Garneau
Paul McCrossan
George Minaker
Aideen Nicholson
Marcel R. Tremblay
Norman Warner

(Quorum 7)

Le greffier du Comité
Marie Carrière

ORDER OF REFERENCE

Extract from the Votes and Proceedings of the House of Commons of Tuesday, February 23, 1988:

Pursuant to Standing Orders 82(15) and 83, on motion of Mr. Mazankowski, seconded by Mr. Wilson (Etobicoke Centre), it was ordered,—That the Main Estimates for the fiscal year ending March 31, 1989, laid upon the Table earlier this day, be referred to the several Standing Committees of the House as follows:

To the Standing Committee on Finance and Economic Affairs

Finance Votes 1, L5, L10, 15, 20, L25, 35 and 40

National Revenue Votes 1, 5, 10 and 15

Privy Council Vote 20

ATTEST

ROBERT MARLEAU
Clerk of the House of Commons

ORDRE DE RENVOI

Extrait des Procès-verbaux de la Chambre des communes du mardi 23 février 1988:

Conformément à l'article 82(15) et à l'article 83 du Règlement, sur motion de M. Mazankowski, appuyé par M. Wilson (Etobicoke-Centre), il est ordonné,—Que le Budget des dépenses principal pour l'exercice financier se terminant le 31 mars 1989, déposé sur le Bureau plus tôt aujourd'hui, soit déferé aux divers Comités permanents de la Chambre, ainsi qu'il suit:

Au Comité permanent des finances et des affaires économiques

Finances, crédits 1, L5, L10, 15, 20, L25, 35 et 40

Revenu national, crédits 1, 5, 10 et 15

Conseil privé, crédit 20

ATTESTÉ

Le Greffier de la Chambre des communes
ROBERT MARLEAU

MINUTES OF PROCEEDINGS

WEDNESDAY, MARCH 2, 1988

(212)

[Text]

The Standing Committee on Finance and Economic Affairs met at 3:44 o'clock p.m. this day, in Room 209, West Block, the Chairman, Don Blenkarn, presiding.

Members of the Committee present: Don Blenkarn, Michael Cassidy, Mary Collins, Simon de Jong, Murray Dorin, Robert Layton, Paul McCrossan, Aileen Nicholson and Norman Warner.

In attendance: From the Committee's Research Staff: H. Bert Waslander, Research Director. *From the Research Branch of the Library of Parliament:* Terrence J. Thomas and Richard Domingue, Research Officers.

Witnesses: From the Office of the Superintendent of Financial Institutions: Michael A. Mackenzie, Superintendent; R.M. Hammond, Deputy Superintendent, Insurance and Pensions Sector; D. MacPherson, Deputy Superintendent, Deposit Taking Institutions Sector; Ursula Menke, Director, Legal Sector.

The Order of Reference dated Tuesday, February 23, 1988 being read as follows:

*It was ordered,—*That the Main Estimates for the fiscal year ending March 31, 1989, laid upon the Table earlier this day, be referred to the several Standing Committees of the House as follows:

To the Standing Committee on Finance and Economic Affairs:

Finance Votes 1, L5, L10, 15, 20, L25, 35 and 40

National Revenue Votes 1, 5, 10 and 15

Privy Council Vote 20.

By unanimous consent, the Chairman called Vote 35 under FINANCE.

Michael Mackenzie made an opening statement and, with the other witnesses, answered questions.

At 5:41 o'clock p.m., the Committee adjourned to the call of the Chair.

Marie Carrière
Clerk of the Committee

PROCÈS-VERBAL

LE MERCREDI 2 MARS 1988

(212)

[Traduction]

Le Comité permanent des finances et des affaires économiques se réunit aujourd'hui à 15 h 44, dans la pièce 209 de l'Édifice de l'ouest, sous la présidence de Don Blenkarn, (*président*).

Membres du Comité présents: Don Blenkarn, Michael Cassidy, Mary Collins, Simon de Jong, Murray Dorin, Robert Layton, Paul McCrossan, Aileen Nicholson et Norman Warner.

Aussi présents: Du personnel de recherche du Comité: H. Bert Waslander, directeur de la recherche. *Du Service de recherche de la Bibliothèque du Parlement:* Terrence J. Thomas et Richard Domingue, attachés de recherche.

Témoins: Du Bureau du surintendant des institutions financières: Michael A. Mackenzie, surintendant; R.M. Hammond, surintendant adjoint, Secteur de l'assurance et des régimes de pensions; D. MacPherson, surintendant adjoint, Secteur des institutions à dépôt; Ursula Menke, directeur, Secteur juridique.

Lecture de l'ordre de renvoi du mardi 23 février 1988 est donné en ces termes:

*Il est ordonné,—*Que le Budget des dépenses principal pour l'exercice financier se terminant le 31 mars 1989, déposé sur le Bureau plus tôt aujourd'hui, soit déféré aux divers Comités permanents de la Chambre, ainsi qu'il suit:

Au Comité permanent des finances et des affaires économiques:

Finances, crédits 1, L5, L10, 15, 20, L25, 35 et 40

Revenu national, crédits 1, 5, 10 et 15

Conseil privé, crédit 20

Par consentement unanime, le président met en délibération le crédit 35 inscrit sous la rubrique FINANCES.

Michael Mackenzie fait une déclaration préliminaire, puis lui-même et les autres témoins répondent aux questions.

À 17 h 41, le Comité s'ajourne jusqu'à nouvelle convocation du président.

Le greffier du Comité
Marie Carrière

EVIDENCE

[Recorded by Electronic Apparatus]

[Texte]

Wednesday, March 2, 1988

• 1539

The Chairman: Members of the committee, we have as our order of reference the main estimates, vote 35 under finance. There is a small part III that goes with that.

• 1540

We have with us Michael Mackenzie, Superintendent of Financial Institutions; Bob Hammond, Deputy Superintendent of the Insurance and Pensions Sector; Don MacPherson, Superintendent of the Deposit Taking Institutions Sector; Suzanne Labarge, Deputy Superintendent of the Regulatory Policy, Planning and Resources Sector; Mr. Emond, Executive Director of the Management Services Sector. Ursula Menke, who has been with us several times before, is back as the Director of the Legal Sector; Mr. Bordeau is the Acting Director of Finance.

Mr. Mackenzie, if you would like to go over your statement then we can perhaps go on to questioning.

Mr. Michael A. Mackenzie (Superintendent of Financial Institutions): Yes, I would, Mr. Chairman. Perhaps it would be appropriate just to read the statement. It is not very long. It covers in general terms some of the territory we would like to talk about and will then give you the opportunity to ask questions.

I am of course very pleased to be here this afternoon to review our estimates with you and to respond to questions that you would like to put to me and my colleagues concerning our current activities in regulating and supervising Canada's federally regulated financial institutions.

Establishing the Office of the Superintendent of Financial Institutions in July resulted in our refocusing the activities of the former Department of Insurance and the former Office of the Inspector General of Banks with a view to meeting the requirements of the enlarged mandate provided by new legislation. This refocusing has in turn resulted in our developing major objectives for the coming year. These objectives are set out in our part II of the estimates and they include:

—strengthening our presence in the regions, particularly in the Toronto area, so that we can enhance our ability to monitor the activities of supervised institutions;

—developing prudential regulations and policies to give effect to legislative proposals flowing from the government's "New directions for the financial sector";

TÉMOIGNAGES

[Enregistrement électronique]

[Traduction]

Le mercredi 2 mars 1988

Le président: Conformément à notre ordre de renvoi, nous examinons aujourd'hui le crédit 35 du Budget principal des dépenses du ministère des Finances et le mince document de la Partie III.

Nous accueillons aujourd'hui Michael Mackenzie, surintendant des Institutions financières; Bob Hammond, surintendant adjoint, secteur de l'assurance et des régimes de pensions; Don MacPherson, surintendant adjoint, secteur des institutions de dépôt; Suzanne Labarge, surintendante adjointe, secteur de la politique de réglementation, de la planification et des ressources et M. Emond, directeur général, secteur des services de gestion. Ursula Menke, que nous avons rencontrée à maintes reprises déjà, nous revient à titre de directrice du secteur juridique. M. Bordeau est directeur intérimaire, finances.

Monsieur Mackenzie, si vous voulez nous présenter votre exposé maintenant, nous passerons ensuite aux questions.

M. Michael A. Mackenzie (surintendant des Institutions financières): Oui, monsieur le président. J'espère que vous me permettrez de lire l'exposé qui n'est pas très long. Il traite des principales questions que nous aimerions aborder et vous pourrez ensuite nous poser des questions.

Je suis heureux d'être ici cet après-midi pour examiner avec vous le Budget des dépenses de mon Bureau et de répondre aux questions que vous voudrez nous poser, à mes collègues et à moi-même, au sujet des activités en cours dans les domaines de la réglementation et de la surveillance des institutions financières régies par des lois fédérales.

La création du Bureau du surintendant des institutions financières en juillet 1987 a donné lieu à un regroupement des activités des deux anciennes organisations, le Département des assurances et le Bureau de l'inspecteur général des banques afin de remplir le mandat plus large prévu par la nouvelle loi. Ce regroupement a donné lieu à l'élaboration d'importants objectifs pour le prochain exercice. Ces objectifs sont décrits dans la partie III du Budget des dépenses et s'énoncent comme suit:

—renforcer sa présence dans les régions, tout particulièrement à Toronto, afin d'être en mesure de mieux contrôler les activités des institutions surveillées;

—élaborer des règlements et des politiques de surveillance prudentes en vue de mettre en oeuvre les propositions législatives découlant de l'énoncé de politique présenté

[Text]

—strengthening and streamlining the regulatory framework by providing clear guidelines to the institutions in relation to new business activities permitted under changing laws;

—enhancing examination practices by implementing recommendations made over the past several years concerning the adequacy of our approaches and procedures;

—reducing the administrative reporting burden on financial institutions and strengthening the office's capacity to monitor institutional and industry-wide performance;

—improving the consultative mechanisms with federal, provincial and international counterparts, industry associations and professional bodies such as the CICA and CIA with a view to contributing to the strength of the Canadian financial system.

• 1545

The office's act provides that expenditures incurred in connection with supervising financial institutions are to be recovered from the institutions themselves. The act also provides that the Minister may spend revenues received by the office to meet expenditures arising out of the office's operations. As a result, parliamentary appropriation is required only for the portion of the office's expenses that are not recoverable. Primarily, these expenses relate to costs associated with providing actuarial services to other government departments.

I would like to speak briefly to you about how I view our objectives and the work we will be doing to ensure they are met. Our overriding concern is with the ability of each federally regulated institution to meet all its obligations as they fall due. The prime motivation in the actions we take is our concern for the liquidity and solvency of each institution. This is based on the premise that public trust and confidence and the safety of financial institutions are essential to a sound economy. A related matter is that access to the system is free and open. That is to say, no individuals or corporations by virtue of ownership links have preferred access.

I think a safe financial services industry is one where its member institutions are competently and honestly run and are profitable. Although our concern is with the safety of the system taken as a whole, a good deal of regulatory activity must of necessity focus on each institution separately because the system is the sum of its parts.

[Translation]

par le gouvernement et intitulé «Le secteur financier: nouvelles directions»;

—renforcer et rationaliser la structure de réglementation en fournissant aux institutions des lignes directrices précises sur les nouvelles activités permises en vertu des lois modifiées;

—améliorer les procédures d'examen en appliquant les recommandations formulées dans des études effectuées au cours des dernières années sur le bien-fondé de nos méthodes et procédures;

—réduire le fardeau administratif des institutions financières relativement à la divulgation de l'information tout en permettant au Bureau de mieux surveiller le rendement de chaque institution et de l'industrie en général;

—améliorer les mécanismes de consultation avec les institutions fédérales, provinciales et internationales, les associations d'industries et les organismes professionnels tels que l'ICCA et l'ACCAP afin de renforcer le système financier canadien et le rendre plus concurrentiel.

Comme vous le savez, la Loi sur le Bureau du surintendant des institutions financières stipule que les dépenses engagées relativement à la surveillance des institutions financières doivent être recouvrées auprès des institutions financières concernées. La loi prévoit également que le ministre peut utiliser les recettes du Bureau pour le paiement des dépenses afférentes aux activités de ce dernier. En conséquence, un crédit parlementaire n'est exigé que pour la partie des dépenses du Bureau qui ne peuvent être recouvrées. Celles-ci comprennent principalement les coûts reliés à la prestation de services actuariels aux autres ministères.

Permettez-moi de vous faire part brièvement de la façon dont j'entrevois ces objectifs et des mesures que nous avons l'intention de prendre afin de nous assurer de les atteindre. Notre principale préoccupation concerne la capacité de chaque institution réglementée en vertu de lois fédérales de faire face à tous ces engagements au fur et à mesure qu'ils arrivent à échéance. Les mesures que nous prenons sont principalement motivées par la suffisance des liquidités et la solvabilité de chaque institution. Cette attitude repose sur le principe selon lequel une économie saine dépend surtout de la confiance du public dans la sécurité des institutions financières. Nous devons également nous assurer que le système est accessible et libre de toute entrave, ce qui signifie qu'aucun particulier ni aucune société ne peut obtenir un traitement privilégié en raison de liens d'appartenance.

Je pense qu'une industrie de services financiers sécuritaire est une industrie rentable dont les membres sont dirigés de manière compétente et honnête. Bien que nos préoccupations touchent l'ensemble du système, un bon nombre des activités de réglementation doivent être axées sur chaque institution séparément puisque chacune d'entre elles fait partie d'un tout.

[Texte]

There are really three main messages directing and focusing our work. Your committee may want to consider these and discuss them in more detail with us. First, there is high system risk in financial markets these days, and that risk is increasing. The chances for trouble and accidents are increasing. The stakes are very high. The pressures on financial institutions operating in Canada are intense, and some of today's winners may well turn out to be tomorrow's losers.

Second, the core regulation, and I believe the key to preventing trouble, lies in the capacity of our financial institutions to govern and regulate themselves effectively and with professional discipline.

Third, in light of this, our office is designing and implementing active as well as reactive supervisory and regulatory programs. One of the things we have learned from past problems is that it is extremely difficult to deal effectively with institutions that are already deeply in trouble.

These are the three major concepts that focus our work and are moving us forward in our efforts to provide sound and professional supervision and regulation for Canada's financial institutions. I shall be pleased to answer any questions you may have related to these issues and to any other matters your committee wishes to discuss.

Mr. McCrossan: I have four areas in which I wanted to question. I am not sure whether I will have to do it in a couple of rounds or not. Let me start with the banks and the recent moves by the banks to acquire stockbrokerage subsidiaries.

Particularly, I would like to dwell on the issue of double-counting of capital or potential double-counting of capital. I would seek your assurance that what I believe to be the case is not the case. It looks to me like the banks acquired these companies by issuing treasury shares and having a share exchange. It also appears the assets for the companies may well be held as assets of the banks. If that is so, we have a double-counting of capital. We have capital pledged to the customers of the brokerage houses and we have the same capital counted up again, at least in part, as security for the depositors in the bank. First of all, is that so? Is there some element of double-counting of capital?

Mr. Mackenzie: I hope not. I think it is an excellent question, and perhaps you could give me a few minutes to develop it a bit, because the answers are not as simple as I would like.

First of all, when a bank buys a majority position in a stockbrokerage, what they will do in preparing their annual financial statements, of course, is consolidate; that all the assets of the stockbroker will come on the books

[Traduction]

Les trois principaux éléments suivants orientent nos efforts. Votre Comité voudra peut-être en prendre connaissance et en discuter. Le premier: De nos jours, les risques que nous courons sur les marchés financiers sont très élevés et s'aggravent de plus en plus, et les dangers auxquels nous nous exposons sont nombreux. Les enjeux sont importants. En outre, les pressions qui seront exercées sur les institutions financières opérant au Canada durant mon mandat seront énormes et certains des gagnants d'aujourd'hui verront leur chance tourner.

Le second: Notre réglementation et la prévention des problèmes reposent essentiellement sur une autonomie administrative et sur une autoréglementation efficaces et professionnelles des institutions financières.

Le dernier: A la lumière de ce qui précède, notre Bureau élabore et met actuellement en oeuvre des programmes préventifs de surveillance et de réglementation. Les échecs subis nous ont appris qu'il est très difficile d'aider une institution ayant déjà de graves problèmes.

Ce sont là les trois messages, voire les trois concepts fondamentaux, sur lesquels se fondent nos travaux et qui guident nos efforts en vue d'appliquer un système de surveillance et de réglementation des institutions financières canadiennes à la fois rigoureux et professionnel. Je serai heureux de répondre aux questions que le Comité voudra poser à ce sujet ou à toute autre question connexe.

M. McCrossan: J'aimerais vous interroger sur quatre grandes questions. Je ne sais pas si j'aurai à m'inscrire aux prochains tours de questions afin de les poser toutes. Permettez-moi de commencer par les banques et leur acquisition récente de filiales de courtage de valeurs mobilières.

J'aimerais plus particulièrement parler du double comptage du capital ou du risque de double comptage. Pouvez-vous m'assurer que mes craintes ne sont pas fondées? J'ai l'impression que les banques ont financé l'acquisition de ces filiales en émettant des actions de trésorerie et en procédant à des échanges d'actions. Il me semble aussi que les actifs des filiales sont comptés comme des actifs des banques. Si c'est le cas, il y a effectivement double comptage du capital. Le capital nanti au profit des clients des maisons de courtage sert, du moins en partie, à garantir les dépôts de la banque. D'abord, est-ce le cas? Y a-t-il effectivement double comptage du capital?

M. Mackenzie: J'espère que non. C'est une excellente question et j'aimerais prendre quelques minutes pour y réfléchir parce que les réponses ne sont pas toujours aussi simples qu'on ne pourrait le souhaiter.

D'abord, quand une banque acquiert une participation majoritaire dans une maison de courtage, elle prépare des états financiers annuels consolidés, c'est-à-dire que tous les éléments d'actifs de la maison de courtage sont inscrits

[Text]

of the consolidated entity and the capital will come on, and the double-counting will be largely eliminated.

Mr. McCrossan: In the consolidation.

Mr. Mackenzie: This is a standard accounting convention used with institutions and subsidiaries that eliminates, or should eliminate, any double-counting or double-leveraging.

Now, we see two interrelated problems connected to banks owning stock brokerages. First of all, I accept the unsaid premise that I think lies behind your question, which is that the securities industry is risky, that the kinds of risks faced in securities markets are rather different from the kinds of risks that have been traditionally faced by conventional bankers. The banking industries are businesses that they have been used to. The cultures are different. We have seen that in the securities industry trouble can happen very swiftly and without ostensible warning. Because of that, we are as concerned as you are that we do not get a doubling up of the capital, that bank capital is not used to support both its banking asset and its securities asset.

Now, the problem comes up that complicates this consolidation exercise I mentioned. From a securities regulator perspective, the capital required for a stockbroker is determined by following a certain set of procedures. They are well known; essentially the same procedures are followed in the United States and Canada and now in the U.K. You vary the assets in the market; you then risk weight the portfolio of assets, and you take margins to cut down the situation and define a capital base required. For example, a \$1 million investment in a portfolio of common stocks will require \$500,000 worth of capital, but \$1 million in treasury bills may require 0.5% or 1% or 1.5%, depending.

Those measures are based on market values, for starters. Second, they are there to take care of or provide for market risk or position risk. Credit risk is presumed to be handled by the allowance for doubtful accounts against the customer's accounts and so on. But banking capital is a cost base measure, as we measure it, designed to accommodate or protect the institution from credit risk problems. It is a bundle of apples and a bundle of oranges in the same basket. So we are examining the process of how you disaggregate a banking capital requirement, a securities capital requirement, and then stand back from them separately, put them together and ask whether or not we have enough. That is the approach.

Now, part of the problem can be caused by the fact that some of the capital in the securities subsidiary, which is acceptable to the SRO, is an undrawn subordinated line of credit. The subordination agreements signed with the TSE or the IDA, or whatever, are ironclad. They are very

[Translation]

dans les états financiers de l'entité consolidée, le capital est ajouté et cela élimine essentiellement le double comptage.

M. McCrossan: Dans les états consolidés.

M. Mackenzie: C'est une convention comptable courante utilisée par les institutions et leurs filiales qui élimine, ou devrait éliminer, tout double comptage ou tout doublement de la capacité d'emprunt.

Or, la propriété de maisons de courtage par les banques pose deux problèmes liés entre eux. D'abord, j'accepte la validité de l'hypothèse qui sous-tend votre question, à savoir que le négoce des valeurs mobilières est très risqué et que les genres de risques qui existent sur le marché des valeurs mobilières ne sont pas ceux auxquels font face depuis toujours les banques classiques. Les banques sont très compétentes dans leur domaine. Les deux secteurs ont des cultures différentes. Dans l'industrie des valeurs mobilières, nous l'avons constaté, les difficultés surviennent très rapidement et sans préavis. En conséquence, nous voulons éviter autant que vous qu'il y ait double comptage du capital, c'est-à-dire que le capital de la banque soit utilisé pour garantir à la fois les actifs de la banque et de la maison de courtage des valeurs mobilières.

Or, un problème se présente qui complique cet exercice de consolidation dont j'ai parlé. Les organismes de réglementation des valeurs mobilières calculent le capital requis pour une maison de courtage selon certains critères. Ils sont bien connus puisque ce sont essentiellement les mêmes qui sont appliqués aux États-Unis, au Canada et maintenant au Royaume-Uni. Les actifs sont diversifiés sur le marché; la composition du portefeuille d'actifs est pondérée selon le risque et les marges bénéficiaires sont calculées de façon à minimiser ces risques et à déterminer l'assise en capital requise. Par exemple, un placement de 1 million de dollars dans un portefeuille d'actions ordinaires nécessitera un capital sous-jacent de 500,000\$ alors que la proportion sera de 0,5 p. 100 ou 1 p. 100 ou 1,5 p. 100 dans le cas de l'achat de 1 million de dollars en bons du Trésor.

D'abord, ces calculs sont fondés sur les valeurs marchandes. Ensuite, ils doivent refléter le degré de risques qui existent sur le marché ou associés à la position. Les provisions pour créances douteuses sont présumées suffisantes pour couvrir les risques de crédit. Cependant, nos calculs de la suffisance du capital des banques visent à protéger l'institution contre les risques de crédit. C'est un ensemble d'éléments disparates mis dans le même panier. Ainsi, nous cherchons les façons de calculer séparément la suffisance du capital des banques et des maisons de courtage des valeurs mobilières afin de déterminer ensuite si le total est suffisant. Voilà l'approche que nous avons adoptée.

Toutefois, le problème est attribuable en partie au fait qu'un des éléments du capital des filiales de courtage jugé acceptable par l'organisation d'autoréglementation est une ligne de crédit subordonnée sur laquelle aucun tirage n'a été fait. Les ententes de subordination signées avec la

[Texte]

good tested subordination agreements. But if we go through the consolidation exercise, that does not turn up at all. So we have to take that into account.

[Traduction]

bourse de Toronto ou l'ACCVM, par exemple, sont très bien verrouillées. Ce sont d'excellentes ententes de subordination déjà éprouvées. Or, si nous vérifions les états consolidés, elles n'apparaissent pas. Il faut donc en tenir compte.

• 1555

I would like to say a final thing about it. I was in the U.K. a couple of weeks ago at the Bank of England. They are wrestling with exactly the same problem over there. I am going back at the end of this month, and we will be sharing our experience and our views on this subject with them. In that endeavour, sooner or later, I will be joined by some of the securities commissions because they have a shared concern with us. I am sorry I gave you such a long-winded answer.

Mr. McCrossan: No, no. That is exactly the type of answer I was hoping for.

Can I just take this a step further? You say when the banks produce their statements they consolidate so the surpluses are washed out. However, when they report their available capital for leveraging purposes to determine their 25:1 lending ratio right now, is it washed out completely, or is there any asset value given for investment and subsidiaries?

Mr. Mackenzie: Well, on a consolidation the assets of the subsidiary will go right up to the parent. There is no problem with that. They will be appropriately valued at market, just as trading assets at the bank are rated at market.

Mr. McCrossan: Well, there is a problem if that takes a surplus in the stockbroker subsidiary up into the banks.

Mr. Mackenzie: What I was trying to say a few minutes ago, sir, was the first cut will be to look at the consolidation picture. The second cut will be to do the disaggregation exercise I just mentioned.

Let me put it in the simplest terms I can think of. It is a long time since I studied algebra, but if I say that Z is the amount of consolidated capital determined the way we usually do in a bank, X is the amount of capital of the stockbroking subsidiary or affiliate determined according to the SRO rules, including subordinated debt, and Y is the amount of the bank capital devoted to bank assets, with their investment in the stockbroking subsidiary taken out of it, and if X plus Y is greater than Z , you have a problem. It can be.

The Chairman: If there is subordinated debt in there as capital, of course it will be.

Mr. Mackenzie: It could be.

Mr. McCrossan: You have not reached the stage yet of determining what the relationship is.

J'aimerais faire une dernière observation. Je me suis rendu à la *Bank of England* il y a quelques semaines. Ils sont aux prises avec un problème identique là-bas. J'y retourne à la fin du mois et nous mettrons en commun notre expérience et nos observations sur cette question. Tôt ou tard, les commissions des valeurs mobilières se joindront à ces réunions parce qu'elles partagent nos préoccupations. Je regrette de vous avoir donné une réponse si longue.

Mr. McCrossan: Non, non. C'est exactement le genre de réponse que j'espérais.

Puis-je pousser encore plus loin? Vous dites que les états consolidés préparés par les banques font disparaître les excédents. Toutefois, quand elles calculent leur capacité d'emprunt et en arrivent à un ratio d'endettement de 25 pour 1, cet élément disparaît-il totalement ou est-ce qu'elles attribuent une valeur d'actif à leurs placements dans les filiales?

Mr. Mackenzie: En cas de consolidation, les actifs de la filiale sont attribués directement à la société mère. Cela ne présente aucune difficulté. Une juste valeur marchande est attribuée à ces éléments d'actif comme c'est le cas des avoirs négociables de la banque.

Mr. McCrossan: Mais cela présente un problème si l'excédent d'une filiale de courtage est imputé aux résultats de la banque.

Mr. Mackenzie: J'expliquais il y a quelques minutes, monsieur, que nous allons examiner dans un premier temps les états consolidés. Dans un deuxième temps, nous examinerons séparément les états, comme je l'ai dit plus tôt.

Je vais essayer de vous expliquer la chose le plus simplement possible. Il y a longtemps que je n'ai pas fait d'algèbre mais si je dis que Z correspond au total du capital consolidé calculé selon les procédures habituelles des banques, que X correspond au total du capital, y compris la dette subordonnée, de la filiale de courtage ou d'une autre filiale conformément aux règles de l'organisation d'autoréglementation et que Y est la fraction du capital de la banque consacrée aux actifs de la banque, après soustraction de sa participation au capital de la filiale de courtage, et, si la somme de X plus Y est supérieure à Z , il y a un problème. C'est possible.

Le président: C'est inévitable si la dette subordonnée est ajoutée au capital.

Mr. Mackenzie: C'est possible.

Mr. McCrossan: Vous n'avez pas encore réussi à déterminer quel est le rapport.

[Text]

Mr. Mackenzie: We have been talking this way to all the banks. We have been sharing this approach with the Bank of England. We have had comparable discussions—not that they have the problem yet in the United States—with our counterparts at the federal level who have control of the currency and with securities people in the SROs here. I think we are getting to some common conceptual understanding of the problem. Getting a solution may take a while.

The Chairman: Can I ask you a supplementary to this, and it may not be dealing with the bank as a security dealer. The National Bank of Canada recently had a little problem in connection with bond trading, and wrote off \$25 million for losses in bond trading. I guess that is trading in securities, as far as we know here, is it not?

Mr. Mackenzie: Yes.

The Chairman: All of a sudden they wind up with this kind of a market risk problem, where they take a bath of that nature. What actions are you taking to check that kind of activity out to make sure there are knowledgeable people doing it and the risks are not enormous, because twenty-five and a quarter million dollars on a relatively small schedule A is not. . . You cannot do that every day of the week.

Mr. Mackenzie: Mr. Chairman, this is a very good question. A month or two ago, in trying to think through moving off from this capital base issue, and related to the events after October 19—the falling market values and so forth—and certain other events in the market, we began to have some discussions with the banks, and they with us, about looking at first of all their own money market, bond market, foreign exchange market transactions, which they carry on anyway. They do not have to acquire a stock broker to get into this business. They have been in this business for some time.

• 1600

We have seen a number of the smaller banks trip. This is not the first "accident", if you like, with financial institutions, banks and others, in the bond market. We have engaged a man who was with one of the banks in their money desk, in their money trading room operation, as a specialist, to start moving through the banking system looking at the internal controls, position limits, trading limits, and other procedures they have. So we have strengthened our own staff, and he came to the board three or four months ago.

Secondly, we have had a member of our regular examination staff off on training programs put on for us by some of the banks, where we have had them in for two

[Translation]

M. Mackenzie: C'est ainsi que nous avons exposé la chose à toutes les banques. Nous avons expliqué notre approche à la *Bank of England*. Nous avons aussi eu des discussions semblables avec nos homologues américains du niveau fédéral—même si ce problème n'existe pas encore aux États-Unis—qui contrôlent la monnaie et avec les organisations d'autoréglementation du secteur des valeurs mobilières au Canada. À mon avis, nous dégagerons bientôt un consensus quant à la nature du problème. Il faudra sans doute plus de temps pour en arriver à une solution.

Le président: Puis-je vous poser une question complémentaire qui ne portait pas directement sur les opérations de courtage des valeurs mobilières de la banque. La Banque Nationale du Canada a eu récemment un léger problème lié au négoce des opérations et a dû passer 25 millions de dollars par profits et pertes. Il s'agissait bien de négoce des valeurs mobilières au sens où nous l'entendons, n'est-ce pas?

M. Mackenzie: Oui.

Le président: Tout à coup, la banque a été victime d'un risque inhérent au marché qui lui a coûté très cher. Quelles mesures de contrôle prenez-vous pour veiller à ce que les négociants soient compétents et évitent de prendre des risques trop énormes parce qu'une banque relativement petite de l'annexe A qui perd ainsi plus de 25 millions de dollars. . . Il ne faudrait pas que cela se produise tous les jours de la semaine.

M. Mackenzie: Monsieur le président, c'est là une excellente question. Il y a un mois ou deux, au lendemain du krach boursier du 19 octobre—qui a provoqué un effondrement des cours, etc.—et à la suite de certains autres déboires du marché, nous avons engagé des discussions avec les banques dans le contexte de notre examen de l'opportunité d'abandonner le critère de la suffisance du capital, et nous leur avons demandé d'évaluer leurs opérations sur le marché monétaire, le marché obligataire et le marché des changes. Elles n'ont pas à faire l'acquisition d'un courtage de valeurs mobilières pour procéder à de telles opérations. Cela fait partie de leurs activités depuis quelque temps déjà.

Certaines des plus petites banques ont déjà trébuché. Ce n'est pas le premier «accident», pour ainsi dire, qu'ont les institutions financières, banques et autres, sur le marché obligataire. Nous avons embauché un ancien agent de change qui travaillait dans l'une des banques et nous l'avons chargé d'examiner les contrôles internes, les positions maximales, les plafonds relatifs aux transactions et les autres garde-fous du système bancaire. Nous avons donc enrichi notre propre personnel et ce nouveau venu travaille pour nous depuis trois ou quatre mois.

En plus, nos examinateurs réguliers suivent des programmes de formation pouvant durer deux ou trois mois, dans certains cas, organisés pour nous par certaines

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or three months, in some cases, to acquire the kind of expertise needed to look into these areas.

Thirdly, as a result of our involvement with the CCCS and the Osler situation, as a result of our contacts with the National Bank, first of all, forensic audits are going on both in the CCCS and in Osler. Also, Price Waterhouse has been engaged by the National Bank to do a study of what happened in their operations in New York. We will of course have full access to the results of these studies and will in due course obviously be modifying some of our programs. Also, the banks will be modifying their controls across the system in the light of those studies. We have had ongoing discussions with the exchange and with the Ontario Securities Commission, as an example, on these problem areas.

Having said all that, I think the system is pretty well alerted to the risks and dangers. People more and more have the sense that every time something like this happens they had better say to themselves "There, but for the grace of God, go I" and learn from the experience. What is really scary in a sense is that when a bank as well managed as the National—and I believe it is one of the best-managed institutions we have—can have this kind of problem then anybody can have the problem.

Merrill Lynch had a problem a year ago in New York. There is not a system in the world that is fail-safe.

Mr. McCrossan: That was heading again in the direction I wanted to head in, because we now admittedly have the banks with part of their capital tied up in a very volatile stock market. We have, as you mentioned but did not elaborate on, a sizeable foreign exchange trading activity just booming, which I guess does not take up any bank capital at all in terms of leverage. Effectively, they are buying and selling very large amounts without affecting the lending base.

Yet the institutions that are typically in the market-sensitive areas—I think of the life insurance institution particularly, where they are experiencing both large security risks and potentially large currency risks—are down, historically, at leverage ratios closer to 10:1, whereas our banks are at 25:1. If they are moving into these highly volatile areas in a big way, then is it not appropriate to consider reducing the leverage ratios from 25:1 to something less for the banks that are heavily involved in bond trading, foreign exchange trading, and securities? To retain the same safeness in the system, should not the leverage ratios be reduced to the institutions that choose to diversify into the riskier business?

[Traduction]

des banques pour leur permettre d'acquérir des connaissances d'expert nécessaires aux vérifications qui leur sont confiées.

Enfin, comme suite à notre intervention auprès de la Banque Nationale, de la CCCS et la maison Osler, des vérifications légales ont été engagées et se poursuivent à la CCCS et à la maison Osler. Par ailleurs, la Banque Nationale a retenu les services de Price Waterhouse qui effectuera une étude des déboires de leur succursale de New York. Nous aurons bien sûr accès aux résultats de toutes ces études et nous modifierons en conséquence certains de nos programmes. Les banques modifieront elles aussi leurs procédures de contrôle dans tout le système à la lumière des résultats de ces études. En outre, nous avons discuté à maintes reprises de ces problèmes avec la bourse et la Commission des valeurs mobilières de l'Ontario.

Cela étant dit, j'estime que le système est maintenant très conscient des risques et des dangers. De plus en plus, chaque fois qu'un tel incident se produit, les agents financiers se sentent soumis à la grâce de Dieu et ils mettent à profit l'expérience. Ce qui m'effraie le plus c'est que toutes les institutions financières sont vulnérables si une banque aussi bien gérée que la Banque Nationale—et je crois que c'est l'une des mieux gérées—peut connaître de tels déboires.

Merrill Lynch a eu des difficultés il y a un an à New York. Il n'y a pas un système au monde qui soit à l'épreuve de cela.

M. McCrossan: Vous venez d'aborder vous-même une question qui m'intéresse vivement, à savoir que les banques ont immobilisé une partie de leur capital sur un marché boursier extrêmement volatile. Comme vous l'avez dit en passant, les opérations de change sont considérables et en pleine expansion sans que les banques aient à y consacrer plus qu'un minimum de capital. De fait, leurs transactions de vente et d'achat représentent des montants énormes sans que cela ne se répercute sur leurs opérations de prêt.

Or, les institutions qui offrent généralement des produits financiers très sensibles aux forces du marché—je songe plus particulièrement aux compagnies d'assurance qui doivent assumer des risques considérables au niveau des garanties et des risques qui pourraient être tout aussi considérables au niveau des devises—ont des ratios d'endettement se rapprochant de 10 pour 1 alors que ceux des banques sont à 25 pour 1. Si elles se tournent de plus en plus vers ces marchés très volatiles, ne serait-il pas sage de réduire à moins de 25 pour 1 le ratio d'endettement des banques qui consacrent une part importante de leurs ressources au négoce des obligations, aux opérations de change et au courtage des valeurs mobilières? Pour assurer la sécurité du système, ne faudrait-il pas réduire les ratios d'endettement des institutions qui choisissent de diversifier leurs opérations quitte à assumer des risques plus grands?

[Text]

[Translation]

• 1605

Mr. Mackenzie: First of all, I would say as a general answer the whole subject of capital is as high as anything we have got on our agenda this year to look at, including dealing with the issues you have just raised and the issues raised earlier, the problems the chairman raised and so forth. But if one looks at foreign exchange trading, the banks have been in this business for a long time. They have very good controls and they have had very few problems.

Mr. McCrossan: But the markets are far more volatile than they have ever been.

Mr. Mackenzie: That is right, but markets have been pretty volatile here for a few years. I am not saying that the risks are negligible, they are not. But I do not know that those risks with those exposures are really any more than the credit risks they have on their books. I do not know that they are. But when we move into the more obvious securities-related areas, our general advice to the banks has been to move as much of that activity, other than managing their own liquidity, down into a subsidiary where they then can follow the kind of regime that you have been talking about and that is appropriate to the securities industry.

The risk-weighted capital approaches which emerge out of the BIS and the capital convergence that we are now discussing with the banks, does include for the first time risk-weightings related to off balance sheet commitments and effectively securities-type transactions.

Mr. McCrossan: So some of those off balance sheet items are going to have to be brought in to accounting as—

Mr. Mackenzie: Yes.

Mr. McCrossan: So when might we anticipate some sort of—

Mr. Mackenzie: I would hope there will be some changes that will be general in the banking field about mid-year.

Mr. McCrossan: By mid-year. And the effect of this—

Mr. Mackenzie: We hope.

Mr. McCrossan: —would be to reduce the leverage ratio on the traditional basis or keep the same leverage ratio but expand the definition of what the risks taken are.

Mr. Mackenzie: Well, if we examined Canadian banks on this international basis, and we have done some studies on that where we have got new definitions or revised definitions of what constitutes accessible capital in two levels, and we have got a profile of assets, risk-weighted, which in some cases just for a straight portfolio of short term government data—our treasury bills and so forth—we would not require the amount of capital required against the loan portfolio, for example. So it goes both

M. Mackenzie: Je vous répondrais d'abord que nous accorderons cette année la priorité à l'examen de cette question de la suffisance du capital ainsi qu'aux autres problèmes que vous-même et le président avez soulevés plus tôt. Cependant, les banques pratiquent les opérations de change depuis de nombreuses années déjà. Elles ont mis en place d'excellents contrôles et ont eu très peu de problèmes.

M. McCrossan: Mais les marchés sont beaucoup plus volatiles maintenant qu'auparavant.

M. Mackenzie: C'est vrai, mais la volatilité des marchés ne date pas d'hier. Je ne dis pas que les risques sont négligeables, ils ne le sont pas. Toutefois, je n'ai aucune raison de croire que les risques associés à leurs opérations de change sont plus sérieux que les risques de crédit qu'elles assument déjà. Rien ne me prouve qu'ils le sont. Nous conseillons toutefois aux banques de logger dans une filiale leurs opérations sur valeurs mobilières, sauf celles nécessaires à la gestion de leurs liquidités—de sorte qu'elles puissent respecter les règles de prudence dont vous avez parlé et que l'on attend de l'industrie des valeurs mobilières.

Les propositions de la BRI relatives à la pondération du capital en fonction du risque et les mesures de la suffisance du capital dont nous discutons maintenant avec les banques prévoient pour la première fois la pondération des risques associés aux opérations hors bilan et aux transactions assimilables aux négoce des valeurs mobilières.

M. McCrossan: Certaines de ces opérations hors bilan devront donc être comptabilisées. . .

M. Mackenzie: Oui.

M. McCrossan: Ainsi, lorsque nous prévoyons certaines. . .

M. Mackenzie: J'espère que nous pourrions annoncer vers le mois de juin des changements qui s'appliqueront à l'ensemble du secteur bancaire.

M. McCrossan: Vers le milieu de l'année. Et ces changements auraient pour effet. . .

M. Mackenzie: Nous l'espérons.

M. McCrossan: . . . de réduire le ratio d'endettement calculé selon la formule habituelle ou de le maintenir au même niveau tout en élargissant la définition des risques.

M. Mackenzie: Si nous examinons la situation des banques en fonction de leurs portefeuilles internationaux. . . nous avons d'ailleurs réalisé des études qui nous ont permis d'élaborer de nouvelles définitions et de réviser les anciennes définitions de ce qui constitue du capital accessible à deux niveaux et nous avons dressé un profil des actifs, pondérés selon le risque. Dans certains cas, notamment celui d'un portefeuille simple de titres à court terme du gouvernement—bons du Trésor, etc.—

[Texte]

ways a little bit. But at any rate, it is much more comprehensive.

So far our analysis would indicate that the Canadian banks as a group stack up pretty well against the American, British and most of the European banks that we are familiar with. So we think that while there are some differences, particularly with respect to loan loss reserves and so forth, as to whether they are in or out of the capital box, you know.

Mr. McCrossan: But if you were to compare large Canadian banks with large Canadian trust companies, the banks are much more likely to have these off balance sheet items and to have the high security and yet they still have the same leverage right now. So it is reasonably obvious that for consistency's sake some sort of adjustment is required.

Mr. Mackenzie: Yes. And there is a concern that we apply the same principles and the same level of rigour, if you like, to the trust industry as we do to the banks. That is also in hand. In fact, I think, though, the trust companies—the larger ones certainly—are going to come out looking in pretty good shape on that comparison. But I will tell you, like anything else I am finding out in this new job, nothing is really all that simple. You touch something over here and it bounces over there. But the banks that are engaged in a lot of the activities you are describing and the banks that are engaged in a lot of “securities-type activities” come in to us complaining that our regime is much heavier than the regime on their big investment banking competitors. And I think that—

Mr. McCrossan: It is the Canadian taxpayers guaranteeing them. They are international competitors.

Mr. Mackenzie: I am not saying that they should have the same regime. But it is being brought rather forcefully to our attention that particularly the international investment houses seem to be able to price and move in these markets in direct competition with the banks with, as far as anyone can see, a lower cost of capital.

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Mr. McCrossan: Some of them failed on October 19. I indicated I had four areas, but I want to wrap up this one.

Mr. Hammond, I understand you are developing something like a C-3 reserve or an asset default reserve on the life side. Is a similar approach being used on the bank side; that is, a volatility of asset reserve, which would be

[Traduction]

nous n'exigerions pas la même proportion de capital que dans le cas d'un portefeuille de prêts, par exemple. Ça joue donc dans les deux sens. De toute façon, c'est une approche beaucoup plus globale.

Notre analyse révèle que les banques canadiennes, dans leur ensemble, soutiennent bien la comparaison avec les banques américaines et britanniques et la plupart des banques européennes dont nous connaissons la situation. Malgré certaines différences, notamment en ce qui concerne les réserves pour pertes sur prêts, etc., elles soutiennent la comparaison quant à la suffisance du capital.

M. McCrossan: Mais si vous deviez comparer les grandes banques canadiennes aux principales compagnies de fiducie canadiennes, vous constateriez qu'il est plus probable que les banques aient des opérations hors bilan et des garanties plus suffisantes et elles ont pourtant les mêmes ratios d'endettement maintenant. Ainsi, pour être cohérent, il me semble évident qu'un ajustement quelconque s'impose.

M. Mackenzie: Oui. Il nous faut aussi appliquer les mêmes principes et avec la même rigueur, pour ainsi dire, aux compagnies de fiducie et aux banques. Cela se fera. Je crois toutefois que les compagnies de fiducie—du moins les plus grandes—soutiendront très bien la comparaison à cet égard. Je vous rappelle toutefois que rien n'est simple, comme je l'apprends depuis ma nomination à ce poste. Un ajustement apporté ici et c'est autre chose qui se dérègle ailleurs. Les banques qui s'adonnent à nombre des activités que vous avez décrites et celles dont les transactions s'apparentent aux négoce des valeurs mobilières nous reprochent de leur imposer une réglementation beaucoup plus contraignante que celle à laquelle sont assujetties les grandes banques d'investissement dont ils doivent soutenir la concurrence. Et je crois que...

M. McCrossan: Ce sont les contribuables canadiens qui les garantissent. Elles sont de calibre international.

M. Mackenzie: Je ne dis pas qu'elles devraient être assujetties au même régime. Mais on attire avec force notre attention sur le fait que les maisons de placements internationales semblent pouvoir s'imposer sur ces marchés et livrer une concurrence directe avec les banques à un coût en capital moins élevé, d'après ce qu'on peut voir pour l'instant.

M. McCrossan: Certaines d'entre elles ont fait faillite le 19 octobre. J'ai dit que j'avais des questions à vous poser dans quatre domaines, mais je voudrais en finir avec celui-ci.

Monsieur Hammond, je crois que vous essayez d'imposer aux compagnies d'assurance-vie la constitution de réserves en cas d'éléments d'actifs en défaut. Utilisez-vous la même tactique du côté des banques? Leur

[Text]

required capitals and so would be taken off the capital base?

Mr. R.M. Hammond (Deputy Superintendent, Insurance and Pensions Sector, Office of the Superintendent of Financial Institutions): Mr. Chairman, it is correct that we are working on minimum continuing capital and surplus requirements for life companies that will take into account the risk of default and quality of assets, as well as the type of liability involved. We are doing some work on that right now. As the work in respect of the banks evolves, we will of course want to bring those two approaches together and make them consistent. So it is very much an evolutionary process; it is very much under way.

Mr. McCrossan: So we can look forward to that sort of analysis as the logical consequence of what Mr. Mackenzie has been describing on the bank side.

Mr. Hammond: Yes. In fact, I think what Mr. Mackenzie has been talking about in terms of the BIS is very much along the lines of what we have been doing in regard to the life insurance companies, the same sort of approach.

Mr. Cassidy: I have a wide area to explore, but I will try to do it briefly, Mr. Mackenzie. We welcome you here. You project an air of confident competence which I hope can be sustained. You managed to kind of spirit half your staff away to Toronto without anybody noticing in area I represent in Ottawa. It was the smoothest hijacking of jobs from Ottawa that we have seen for many a day.

I would like to ask first regarding your comments in your opening statement about the problems of high system risk in financial markets. If there is a high system risk in financial markets, and obviously you are indicating that may also be the case for Canadian financial institutions, I wonder if you can comment a bit on that, perhaps be a bit more explicit, because clearly the whole question of systemic risk is something which is much in the minds of people in financial institutions in investing large pools of capital. I know there is a great deal of more or greater attention on mismanagement as a major element in investment, and despite all of that, such things as last October's crash do occur. For those who wonder whether our multinational capitalist system is sustainable or not, one wonders whether this is not the last crisis or not. I think we are probably going to stagger through a couple more. Can you comment on this point?

Mr. Mackenzie: I will start my comments by saying that as a representative of the region of Ottawa, as far as I know no jobs in my shop have been lost in the Ottawa area.

The question of a system risk, let me break it down to a number. There are sort of what I will call general economic factors, and I put them in the following kinds

[Translation]

demandez-vous de constituer des réserves pour parer à toute fluctuation des actifs, ces réserves faisant partie du capital obligatoire, et donc, soustrait du capital primaire?

M. R.M. Hammond (surintendant adjoint, Assurances et pensions, Bureau du surintendant des institutions financières): Monsieur le président, nous sommes effectivement en train de mettre sur pied un système qui obligerait les compagnies d'assurance-vie à constituer des réserves obligatoires afin de tenir compte d'éléments d'actifs qui risqueraient d'être en défaut ou de mauvaise qualité, ainsi que des types de dettes existantes. Nous y travaillons à l'heure actuelle. Pour ce qui est des banques, nous essaierons évidemment d'uniformiser le tout. Mais ces études ne sont pas encore terminées; elles sont en cours.

M. McCrossan: Cette analyse serait donc la conséquence logique de ce dont parlait M. Mackenzie à propos des banques?

M. Hammond: En effet. Ce que M. Mackenzie disait à propos de la Banque des règlements internationaux ressemble un peu à ce que nous faisons pour les compagnies d'assurance-vie.

M. Cassidy: J'ai beaucoup de questions à vous poser, monsieur Mackenzie, mais j'essaierai d'être bref. Tout d'abord, bonjour. Vous semblez avoir confiance en vos moyens, c'est du moins l'air que vous semblez arborer, et j'espère que c'est le cas. Vous avez réussi à faire disparaître comme par enchantement la moitié de votre personnel qui est allé à Toronto sans que cela fasse beaucoup de remous dans la région que je représente à Ottawa. Cela faisait longtemps que nous n'avions pas vu un rapt d'emplois aussi perfectionné.

Dans vos observations préliminaires, vous avez parlé des risques élevés que couraient les marchés financiers. Si tel est le cas, et vous semblez également dire que cette observation vaut également pour les établissements financiers canadiens, je me demande si vous ne pourriez pas étoffer votre pensée, être un peu plus explicite, car cette question de risque systémique préoccupe beaucoup ceux qui investissent de grosses sommes d'argent. Je sais qu'on a plus ou moins mis l'accent sur la mauvaise gestion, ce qui n'a pas empêché, malgré tout, la débâcle boursière d'octobre dernier. Ceux qui se demandent si notre système capitaliste multinational est vraiment viable s'interrogent et se disent que cette crise est peut-être la dernière. Je crois que nous devrons en vivre au moins deux autres. Que pensez-vous de tout cela?

M. Mackenzie: Permettez-moi de vous dire tout d'abord qu'en tant que représentant de la région d'Ottawa, aucun emploi n'a disparu que je sache.

Quant aux risques encourus, je vous dirais que cela tient à des facteurs économiques d'ordre général que je diviserai en catégories. D'après les économistes, nous

[Texte]

of categories. We have had five or six years of what the economists like to call recovery. We have had basically, in central Canada certainly, in the financial markets what I call economically benign conditions. Interest rates have been dropping off; the levels of non-performing loans have dropped off; the institutions have adjusted to a much lower level of inflation, which oddly enough did cause them some problems at the beginning.

I am not an economic forecaster, and what the events of October 19 signalled, I do not know any better than anybody else, but I have an uneasy feeling that these boom conditions and affluent, benign general economic conditions may not last forever. A recession of some kind is a possibility, if not a probability, within the next year or two. As I say, your guess is as good as mine on that.

At any rate, one of the things I am concerned about is we have had very good basic conditions from the perspective of financial institutions that have been (a) expanding the level of their activities, and (b) getting into a lot of new products and swaps and off-balance-sheet types of products, and all kinds of stuff, under pretty good conditions. So I have a concern that if conditions become less benign, maybe some problems will emerge with these that are not evident today.

• 1615

Related to this is the notion of hedging. Everyone seems to be talking about hedging. But hedging does not reduce risk. The risk in the position or the risk in the transaction is there. It may spread the risk around and move it around the table. But my concern, and I think the concern of our office, is whether all the players around the table understand what risk they have taken on, and, I would also understand, whether they have truly passed their risk on to somebody else.

There are transaction risks involved in all this activity. You can stand back, as we try to, and say that could in fact increase the overall risks in the system. It is that kind of thing I worry about. We have seen situations where people get into positions that if properly constructed according to their own rule book involve no credit risk. When the snows came in, sure enough there was credit risk. So that is part of it.

Mr. Cassidy: May I be more specific? Last October we saw a very substantial drop of I guess 30% or so in the Canadian stock markets, which corresponded to similar collapses of stock market prices in many other parts of the world. We saw one major investment house, Osler, go under as a consequence of that, and others come close to the brink. About the institutions for which you are responsible, can you comment on whether that stock market crash revealed weaknesses of which you were previously unaware or exposed a need for different forms of regulation or different forms of, let us say, insulation of these financial institutions against imprudent actions or against unfortunate results?

[Traduction]

avons connu une reprise qui a duré cinq à six ans. Dans le Canada central du moins, les marchés financiers ont connu ce que j'appellerais des conditions économiques bénignes. Les taux d'intérêt ont baissé, le nombre de prêts non productifs a diminué et les établissements financiers ont composé avec un taux d'inflation beaucoup moins élevé, ce qui leur a causé certains problèmes au tout début, même si cela peut sembler bizarre.

Je ne suis pas expert en prévisions économiques, et je ne sais pas plus que les autres quelle signification profonde il faut attribuer aux événements du 19 octobre, mais je crains que ce boom économique que nous avons connu, ces conditions économiques bénignes ne dureront pas toujours. Il se peut qu'une récession s'installe au Canada au cours des 12 à 24 prochains mois. Comme je l'ai dit, je ne le sais pas plus que vous.

De toute façon, les institutions financières se trouvent en très bonne posture; elles ont pu augmenter leurs activités et proposer de nouveaux produits, effectuer des opérations de swap, des opérations hors bilan, des prises en pensions, etc., dans de bonnes conditions. Ainsi, je crains que si les conditions économiques empirent, des problèmes surgiront, problèmes qui ne sont pas évidents aujourd'hui.

Vient s'y greffer la notion d'arbitrage. Tout le monde semble parler d'arbitrage de nos jours, mais l'arbitrage ne réduit pas les risques. Les risques que présentent une position financière ou une transaction donnée demeurent. L'arbitrage étale peut-être les risques, mais je me demande, et notre bureau se demande aussi, si tous les opérateurs comprennent bien les risques qu'ils encourent et je voudrais également savoir s'ils ont passé ce risque à quelqu'un d'autre?

Ces transactions présentent des risques. On peut rester sur la touche, comme nous essayons de le faire, et se dire que cela pourrait augmenter les risques un peu partout. Voilà ce que je crains. Nous avons vu des gens faire des opérations qui, selon leurs propres règles, ne comportaient aucun risque. Pourtant lorsque le tout s'est effondré, il y avait bien risqué.

M. Cassidy: Puis-je être plus précis? En octobre dernier, la Bourse du Canada a baissé de près de 30 p. 100, tout comme les autres bourses du monde. A la suite de ce krach boursier, une maison de placements importante, la compagnie Osler, a fait faillite et d'autres n'en sont pas loin. Vous êtes responsable de ces institutions et pouvez-vous me dire si le krach boursier a permis de déceler des faiblesses que vous ne soupçonniez pas auparavant ou a permis de constater que d'autres règlements devaient être imposés ou que ces établissements financiers devaient être protégés contre toute action imprudente ou tout résultat malheureux?

[Text]

Mr. Mackenzie: First of all, Mr. Cassidy, the Osler situation was not the result of what happened on October 19. That was a drama that goes back a little further than that.

The system, in my judgment, came through the weeks after October 19 remarkably well. When I say the "system", I mean the regulatory system. The regulatory organizations, under which I include the IDA, the TSE, the Montreal Stock Exchange, and so forth, overseen by their respective provincial securities commissions, were in fact able to monitor on a daily basis the capital positions. When various brokers did get into trouble, needed more capital, the banks in fact did provide it in the form of additional undrawn... or lines of credit, co-ordinated, and so on. The response of the system was pretty good.

The Bank of Canada had equipped itself, I think, with appropriate analysis and study, legal opinions, and so forth, so if it had to it could have acted as a provider of liquidity. We were in constant contact with the banking system, with people like CDS, who were responsible for the clearance and settlements process, and so forth. I really think in Canada, as in the United States and the U.K., the situation was managed pretty well from a regulatory supervisory point of view.

That does not mean to say we do not have a whole lot to learn. We are doing a detailed analysis of a couple of brokerage cases, and in conjunction with the provincially based securities regulators, into the true capital impact on a certain number of brokers through that period, just to see if we can understand it better, and, in dealing with what you are saying, the different approaches that should have been taken, even though the thing was saved or did not run into real trouble. So that is one of the things we are doing.

• 1620

The second thing this indicates—and we touched on it earlier—are the transactions between the institutions, mainly the banks, and the stockbrokerage community itself. We are talking about day loans—how they manage those, how they margin those—and how the banks provide or do not provide liquidity into the system as it is happening. We are working and are in contact with people like the CDS and others to review the settlements. We think the whole set of controls surrounding repulls, money market transactions, bond trading transactions, and so forth between financial institutions that we are concerned about and the markets needs to be looked at and studies are in process to look at it.

We have not done in Canada the kind of studies—there have been five or six in the United States, from the SEC and the General Accounting Office in Washington, the Brady commission, and so forth—to look at other things

[Translation]

M. Mackenzie: Premièrement, monsieur Cassidy, ce n'est pas l'effondrement de la bourse qui a entraîné la faillite de la compagnie Osler. Ses difficultés remontent plus loin que cela.

A mon avis, le système s'est remarquablement bien sorti de la débâcle du 19 octobre. Lorsque je dis «système», j'entends le système de réglementation. Les organismes de réglementation, l'Association canadienne des courtiers en valeurs mobilières, la Bourse de Toronto, la Bourse de Montréal, etc. chapeautées par leur commission en valeurs mobilières provinciales respectives, ont pu, en fait, suivre quotidiennement ce qui se passait. Lorsque des courtiers ont éprouvé des difficultés, lorsqu'ils avaient besoin de capitaux supplémentaires, ce sont les banques elles-mêmes qui leur ont avancé ces capitaux sous forme de marges de crédit, etc. Le système, à notre avis, a très bien réagi.

La Banque du Canada avait effectué toutes les analyses et études appropriées, avait demandé des avis informés etc., et ainsi, si elle avait été appelée à le faire, elle aurait pu fournir des fonds. Nous étions en rapport constant avec le système bancaire, avec le CDS, responsable des compensations et des règlements, etc. Je crois vraiment que du point de vue réglementation, tout s'est très bien passé au Canada, aux États-Unis et au Royaume-Uni.

Cela ne signifie pas pour autant que nous n'avons pas de leçons à tirer de ces événements. A l'heure actuelle, nous analysons de façon détaillée la situation de deux maisons de courtage et, en collaboration avec les Commissions de réglementation des valeurs mobilières provinciales, nous analysons le véritable impact de ces événements sur les capitaux d'un certain nombre de courtiers, pour voir si nous pouvons le comprendre un peu mieux, et, pour répondre à votre question, pour voir si nous ne devrions pas changer d'orientation, même si nous n'avons pas éprouvé de réelles difficultés. Voilà donc ce que nous faisons.

Deuxièmement, et nous en avons parlé tout à l'heure, nous nous sommes penchés sur les transactions entre établissements financiers, surtout entre les banques et les maisons de placements. Nous nous sommes demandé comment ces établissements géraient les prêts au jour le jour, comment ils en calculaient la marge bénéficiaire et comment les banques alimentent le système. Nous sommes en rapport constant avec le CDS et d'autres organismes pour analyser ces liquidations. Nous pensons que toutes les mesures de contrôle régissant les prises en pension, les transactions sur le marché monétaire, les transactions d'obligations, etc. entre établissements financiers qui nous inquiètent et les marchés devraient être examinés et c'est ce que nous faisons.

Au Canada, nous nous sommes pas penchés, contrairement aux États-Unis, où la SEC, le bureau du comptable général à Washington, la commission Brady, etc., ont fait cinq ou six études, sur ce qui s'est produit.

[Texte]

that have happened. Some of those other things, such as program trading, relationships between options futures and cash markets, and a lot of stuff there is clearly beyond our competence to deal with.

I attended a conference overseas a couple of weeks ago where I listened to regulators from around the world talk about what we have learned from these things, and the message seems to be that we do need better controls and monitoring over the linkages between computerized trading systems, futures and options markets, and cash markets. What that leads to I do not know.

Secondly, it did point to a need to have well understood and articulated contingency planning to prepare for the next time.

Mr. Cassidy: On that point, I think the committee should consider, away from the estimates, coming back to that question.

The Chairman: These witnesses are going to be back here, with the exception of Mr. Mackenzie, on Tuesday. We may need more time than that.

Mr. Cassidy: I am thinking of doing it, rather, separately, because one of the problems in this country is that we are in an increasingly internationalized financial market and yet Canada has no national equivalent of the SEC or the national security regulation bodies that exist elsewhere. In fact, this office is from time to time plugged in as a surrogate for the national securities agency we never got.

I have a different area I want to raise with Mr. Mackenzie, though. It will be quite direct. You are responsible, through your office, for the Bank Act, as for the supervision of the banks.

Mr. Mackenzie: Yes.

Mr. Cassidy: The five major banks control about 85% of the cheque transactions in the country. The access to the cheque-cashing system, however, is not available to people who are very poor, particularly people who are on social assistance or welfare and some people who are on pensions. In a number of major cities in the last five years have grown up these cheque-cashing services, notably those run by Money Mart Cheque Cashing Centre and by the Canadian cheque cashing service.

I had a constituent call me the other night and ask me: do you know what it cost me to cash a \$150 cheque? I said no, I did not. It cost me \$15, he said. The standard fee at Money Mart is 6% on a government cheque; on a welfare cheque for \$600, that is about \$36 or \$40. The reason people use those services—and they are well used, particularly around the end of the month—is because the banks refuse to cash cheques except from established customers or people who can offer the kind of identification that many welfare and assistance recipients

[Traduction]

Cependant, nous ne sommes pas compétents pour examiner d'autres types d'opérations, comme le courtage par ordinateur, les rapports entre les marchés des primes et options, à terme et au comptant.

Il y a environ deux semaines, j'ai assisté à une conférence à l'étranger où les représentants des organismes de réglementation du monde entier parlaient des enseignements à tirer de ces événements; ils semblaient dire qu'il n'était pas nécessaire d'imposer de meilleures mesures de contrôle, de surveiller de plus près les rapports entre le courtage par ordinateur, les marchés des primes et options, les marchés à terme et les marchés au comptant. Où cela nous mène, je ne sais pas.

Deuxièmement, tout le monde pensait qu'il fallait dresser des plans de secours bien réfléchis pour être prêts la prochaine fois.

M. Cassidy: À ce sujet, je crois que le Comité devrait réexaminer cette question, en dehors des prévisions budgétaires.

Le président: Nos témoins, exception faite de M. Mackenzie, seront de nouveau parmi nous mardi. Nous devons peut-être leur demander de revenir.

M. Cassidy: Je préférerais qu'on en parle séparément, car un des problèmes qui se pose ici, c'est que les marchés financiers s'internationalisent de plus en plus et pourtant le Canada ne possède pas d'organisme similaire à celui du SEC ou à d'autres organismes de réglementation des valeurs mobilières qui existent dans d'autres pays. En fait, ce bureau sert, de temps à autres, d'organisme de remplacement du bureau des valeurs mobilières nationales que nous n'avons jamais eu.

Je voudrais vous poser une tout autre question, monsieur Mackenzie. Je serai direct. Votre bureau est responsable de l'administration de la loi sur les banques, du contrôle des banques.

M. Mackenzie: En effet.

M. Cassidy: Les cinq grosses banques du Canada contrôlent environ 85 p. 100 des transactions par chèque dans ce pays. Les pauvres et, en particulier, les assistés sociaux et les retraités n'ont cependant pas accès au système d'encaisse des chèques. Au cours des cinq dernières années, des services d'encaissement de chèque, notamment le centre d'encaissement de chèque Money Mart et le service d'encaissement de chèques canadiens se sont installés dans un certain nombre de grandes villes.

L'autre jour, un électeur m'a appelé et m'a demandé si je savais combien cela lui coûtait d'encaisser un chèque de 150\$. Je lui ai répondu que non. Il m'a dit que cela lui coûtait 15\$. Money Mart demande une commission de 6 p. 100 pour encaisser un chèque du gouvernement ce qui représente 36\$ ou 40\$ pour un chèque de 600\$ délivré par les services sociaux. Si ces gens ont recours à ces services—et ils y ont souvent recours, en particulier en fin de mois—c'est parce que les banques refusent d'encaisser des chèques s'ils ne sont pas détenus par des clients qu'ils

[Text]

do not have. This is a scandalous situation. It should not be allowed to exist.

Since the banks are in a position where they make very substantial profits from the oligopoly they have from their control over financial markets in this country and over the cheque system, it seems to me that it would be reasonable, in a society which tries to deal equitably with all of its members, that in fact through your office or through other means you might recommend the banks should be obliged to develop systems that are fair in order to permit people with these very low incomes to cash their cheques on a reasonable basis and at no charge.

• 1625

Certainly when I deposit my pay cheque in the Bank of Montreal, they do not charge me. They do charge for running the account, but nowhere near \$36 for one cheque. It may cost me 15¢ or 25¢ or maybe even 50¢, but it is essentially a nominal amount. Is your office seized of this as a problem? If not, why not? And if so, what are you doing about it?

Mr. Mackenzie: Donald, perhaps you want to handle this one, since banks and other deposit takers are under you. Then I may come back to it.

Mr. D. MacPherson (Deputy Superintendent, Deposit Taking Institutions Sector, Office of the Superintendent of Financial Institutions): In the first place, Mr. Chairman, the act really gives us no authority to intervene in a matter of this kind. But that is not an adequate response to Mr. Cassidy's question, I understand. We have raised this question repeatedly with the banks over a fair period of time, trying to raise their sensitivity to this particular problem. There is, however, unfortunately, as you know, an element in society that finds ways and means of falsifying, forging, or otherwise negotiating cheques in a fraudulent way that potentially lead to losses in terms of many, many millions of dollars each year.

Mr. Cassidy: Now, wait a minute. Are you making that statement? Are you alleging that welfare recipients are particularly prone to fraud?

Mr. MacPherson: No, no.

Mr. Cassidy: Are the banks making that statement to you?

Mr. MacPherson: I do not want to leave that impression at all.

Mr. Cassidy: Are the banks making the statement to you that welfare recipients are particularly prone to fraud?

Mr. MacPherson: No. Excuse me, Mr. Chairman, the banks have not made that allegation.

[Translation]

connaissent ou des gens qui peuvent montrer des pièces d'identité que les assistés sociaux ne possèdent pas. C'est un véritable scandale et cette pratique devrait être interdite.

Étant donné que les banques peuvent tirer de très gros profits du contrôle qu'elles exercent sur les marchés financiers de ce pays et sur le système d'encaissement de chèque, il me semble, dans une société qui essaie de traiter également tous ses membres, que votre bureau pourrait recommander aux banques de mettre au point des systèmes qui permettraient à ces gens qui ont de très faibles revenus d'encaisser leurs chèques gratuitement.

La Banque de Montréal ne prélève rien sur mon compte chèque lorsque j'y dépose mon chèque de paye. Elle me demande des frais de gestion, mais certainement pas 36\$ pour y encaisser un chèque. Cela me coûte peut-être 15c., 25c. ou même 50c., mais c'est un montant symbolique. Y voyez-vous un problème? Dans la négative, pourquoi pas? Dans l'affirmative, que faites-vous pour remédier à cette situation?

M. Mackenzie: Monsieur MacPherson, peut-être pourriez-vous répondre à cette question, puisque vous êtes chargé du secteur des banques et autres établissements de dépôt. J'interviendrai ensuite.

M. D. MacPherson (surintendant adjoint, secteur des institutions de dépôt, Bureau du surintendant des institutions financières): Premièrement, monsieur le président, la loi ne nous autorise absolument pas à intervenir dans des cas de ce genre. Mais cela ne répond pas à la question de M. Cassidy, j'en suis fort conscient. Nous avons déjà abordé ce problème à de nombreuses reprises avec les banques en essayant de le leur faire comprendre. Malheureusement, comme vous le savez, certains éléments de notre société trouvent toujours des façons de falsifier, de fausser ou de négocier des chèques de façon frauduleuse et qui entraîne des millions et des millions de dollars de perte chaque année.

M. Cassidy: Un instant. Est-ce vous qui dites cela? Êtes-vous en train d'accuser les assistés-sociaux de fraude?

M. MacPherson: Non, absolument pas.

M. Cassidy: Sont-ce les banques qui vous ont dit cela?

M. MacPherson: Je ne veux pas vous laisser cette impression-là.

M. Cassidy: Sont-ce les banques qui disent que les assistés-sociaux falsifient les chèques?

M. MacPherson: Non, excusez-moi, monsieur le président, mais ce n'est pas ce que les banques ont dit.

[Texte]

Mr. Cassidy: All right. I am not sure why you made it, then.

The Chairman: Lots of people steal cheques and cash them, and there is fraud on cheques.

Mr. MacPherson: Precisely. Through discussions with the Department of Supply and Services over the years, they have advised us of widespread theft of cheques from letter boxes, forging of cheques and otherwise false negotiation of government cheques, not by the people to whom the cheques were issued, but by other operators.

That being said, we have raised the issue repeatedly with banks, as I mentioned. We believe some progress has been made over the years to address this situation to some extent in that most of the banks advise us that they have in place systems whereby regular recipients of these sorts of cheques, who for very valid reasons do not have accounts with the bank, may nevertheless establish a relationship with the bank, including lodging with us a signature specimen, perhaps even the carrying of a particular little card that identifies themselves to the banks. So the banks, as a service, will accommodate those people who are regular recipients of cheques and who come to the same branch on a regular basis.

The problem, as I understand it, is more with people who are itinerant to some degree, who may be the recipients of unemployment insurance cheques and move around the country and so on. Those people clearly have a problem. But I would suggest it is not a problem that is peculiar to the banking sector. There are many, many other institutions that are in the deposit taking and cheque cashing business, and while the banks, as you mentioned, negotiate the lion's share of the cheques in the system, this problem prevails among the non-bank deposit takers as well.

Mr. Cassidy: Let me pursue this a bit further. If this problem is being resolved by the action of the banks, then one has to ask how come this particular enterprise, which works by franchising, has grown to have branches now in major cities in B.C., Alberta, Saskatchewan, Manitoba, Ontario and Quebec. If it is mainly catering only to an extremely small group of people who are so itinerant that they cannot establish a relationship with a bank, then why does Money Mart, for example, have an office out near Britannia in the city of Ottawa, near a number of public housing and low-income housing areas where it clearly appears to be dealing largely with people who are rooted and living in those particular communities and are not itinerant at all? Why should we have to put up with that kind of exploitation of very poor people, which has been created because of policies of the banks?

[Traduction]

M. Cassidy: Bien. Je ne vois pas très bien pourquoi vous l'avez dit, alors.

Le président: Il y en a beaucoup qui volent des chèques, les encaissent ou les falsifient.

M. MacPherson: Exactement. Le ministère des Approvisionnements et Services nous a fait savoir, au fil des ans, que des chèques étaient volés dans des boîtes à lettres, qu'ils étaient falsifiés ou négociés, non pas par ceux à qui ces chèques étaient destinés, mais par d'autres.

Cela dit, nous en avons déjà discuté à de nombreuses reprises avec les banques, comme je l'ai déjà dit. Nous estimons que certains progrès ont été réalisés au fil des ans dans la mesure où les banques nous disent qu'elles ont mis en place un système qui permet à ceux qui reçoivent régulièrement ce genre de chèques et qui, pour des raisons parfaitement plausibles, n'ont pas de compte en banque, de faire affaires avec les banques, en nous remettant un spécimen de leur signature, ou en ayant une carte qui les identifie auprès des banques. Ainsi, les banques leur rendent ce service; elles acceptent maintenant d'encaisser les chèques de ceux qui les reçoivent régulièrement à condition qu'ils s'adressent toujours à la même agence.

Le problème, si je comprends bien, vient surtout des itinérants qui reçoivent des chèques d'assurance-chômage et qui se déplacent souvent. Ces gens-là posent manifestement un problème. Mais je dirais que ce problème n'est pas l'apanage des banques. Il existe de nombreuses autres institutions qui acceptent des dépôts et encaissent des chèques et si, comme vous l'avez dit, les banques en ont la part du lion, ce problème se pose également dans des établissements de dépôts non bancaires.

M. Cassidy: Permettez-moi d'aller un peu plus loin. Si ce problème a été résolu par les banques, on peut alors se demander pourquoi cette entreprise particulière possède tant de franchises dans les grandes villes en Colombie-Britannique, en Alberta, en Saskatchewan, au Manitoba, en Ontario et au Québec. Ainsi, leurs services ne sont destinés qu'à une minorité itinérante, pourquoi alors Money Mart, par exemple, possède-t-il un bureau près de Britannia à Ottawa, près de quartiers où sont regroupés des logements sociaux où vivent des gens qui ne sont absolument pas itinérants? Pourquoi ces pauvres gens devraient-ils être exploités alors que ce sont les banques qui sont fautives?

In Halifax, where the situation is better regulated by the banks, apparently Money Mart opened and very quickly shut. There was no trade for its business.

A Halifax, où les banques gèrent mieux la situation, Money Mart a ouvert une agence, mais l'a très rapidement fermée. Personne ne passait les portes.

[Text]

I accept that governments have some responsibility to work arrangements out with the banks as well, but the banks are in the middle there. It seems to me if they were doing their job this kind of operation would not exist.

Mr. MacPherson: I am not suggesting the process I described solves the problem, by any stretch of the imagination. It is a step in the right direction. However, to some degree I have to come back to my first response, that the act as it is now, the act for which we are responsible, does not give us the power or authority to direct banks to accommodate, provide, this sort of service. There is nothing that obliges a bank or any other institution to cash a cheque for anybody.

Mr. Cassidy: Perhaps Mr. Mackenzie would like to answer this question. In your role as adviser on policy to government, in addition to suasion, which I hope you will exert with a good deal more pressure than perhaps you are doing now, do you think the law should be changed so you would have some legal force behind those representations you make in your discussions with the banks?

The Chairman: Yes or no.

Mr. Mackenzie: I do not know how one can write a law to deal with that situation.

The Chairman: In any event, we can deal with this to some extent on Tuesday, with Mr. Thomas's paper on bank charges, which we will be discussing and perhaps issuing a report on.

Mr. Layton: Mr. MacKenzie and your colleagues, we are happy to have you here with us this afternoon. Welcome.

If, as you stated in your opening remarks, the core of regulation is effective self-examination, does the operation and funding—because we are here talking estimates—of your office in the current year's estimates allow for and assure a monitoring of the process to see whether the banks are self-examining, or is that something we just have to assume and hope for? Does your office actually address this, and would the funds we are giving you do the right job?

Mr. Mackenzie: Yes. We are approaching this, sir, at a number of different levels. The first is, of course, that there is a sense in which our on-site examinations are examinations of management competence and management's ability to self-regulate, if you like, or govern. We conclude these examinations with presentations to management and to the audit committees of the boards. We started this program last year, and we are now on an extensive program throughout all the institutions we are concerned with of meeting with management and their auditors, audit committees, together, and then with the audit committees separately; because it is inherent in this that if the Bank Act and comparable bits of legislation say it is a duty of directors to manage or supervise management, we see we can play a

[Translation]

Je sais que les gouvernements devraient s'entendre avec les banques également mais, en l'espèce, ce sont les banques qui sont en cause. Il me semble que si elles s'y prenaient un peu mieux, ce genre d'entreprises n'existerait pas.

M. MacPherson: Je ne dis absolument pas que les mesures prises par les banques, jusqu'à présent, résolvent le problème, pas du tout. C'est un pas dans la bonne direction. Cependant, permettez-moi de revenir à ce que j'ai dit tout à l'heure, la loi que nous administrons ne nous permet pas d'ordonner aux banques d'offrir ce genre de service. Une banque ou tout autre établissement financier n'est pas obligée d'encaisser les chèques de quiconque.

M. Cassidy: M. Mackenzie voudrait peut-être répondre à cette question. Vous conseillez le gouvernement et, mis à part la persuasion, que vous exercerez à l'avenir, je l'espère, un peu plus que maintenant, pensez-vous que la loi devrait être modifiée pour que vous disposiez des moyens nécessaires pour que les banques traduisent en actes les recommandations que vous leur faites lors de vos discussions avec elles?

Le président: Oui ou non.

M. Mackenzie: Je ne vois pas comment l'on peut résoudre ce problème par voie législative.

Le président: De toute façon, nous pourrions en discuter mardi, puisque nous étudierons le document préparé par M. Thomas sur les frais bancaires; nous déciderons peut-être même d'en faire un rapport.

M. Layton: Monsieur Mackenzie, messieurs, nous sommes heureux de vous rencontrer cet après-midi.

Si, comme vous l'avez dit dans votre déclaration liminaire, la réglementation repose sur l'autoréglementation, les prévisions budgétaires—puisque nous sommes ici pour en parler—de votre bureau, cette année, permettront-elles de voir si les banques s'autoréglementent effectivement, ou bien faut-il simplement espérer qu'elles le feront? Votre bureau s'en occupe-t-il et les crédits que nous vous octroyons servent-ils à cela?

M. Mackenzie: Oui. Nous abordons la situation à des niveaux différents. Nous procédons à des inspections sur place, nous examinons la compétence des dirigeants, leur capacité d'autoréglementation, si vous voulez. Nous présentons ensuite le résultat de ces inspections à la direction et aux commissions de vérification des conseils d'administration. Ce programme a débuté l'année dernière et s'étend maintenant à tous les établissements financiers qui nous préoccupent; nous rencontrons les dirigeants, les vérificateurs et les commissions de vérification ensemble et ensuite les commissions de vérification séparément. Si la Loi sur les banques et d'autres textes législatifs stipulent qu'il appartient aux directeurs d'encadrer les gestionnaires, nous pouvons nous-mêmes jouer un rôle très actif et voir si c'est

[Texte]

very active role in monitoring the degree to which they do just that. So that program is off and running and so forth.

The next thing we do is where we are more actively involved, and always have been involved, in the writing of appropriate accounting and evaluation rules, we are working with consultative committees from the auditing profession, broken down by industry to develop and ensure that the kind of accounting rules that are written in to respond to changing financial markets and transactions and so forth are appropriately conservative. For example, we have been very heavily involved in the development of fee accounting rules, so we are not getting inappropriate people, or people playing appropriate cosmetic games, if you like, by putting fees and so on in the books to cover other problems.

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We are moving in areas such as the money market transactions, and so forth, building some expertise, constantly talking to the industry and looking at what they are doing in fact in controls over foreign exchange trading, bond trading and these other activities.

Standing back from it, I think we feel these programs should pay off. They have been going pretty well. We recognize, however, that when things go well this is easy. Everyone is very polite; they are very nice and the meetings are very cordial. We really believe it is productive to establish these relationships so that when things start to go not so well or when the climate tends to be less benign, and so forth, we have a basis of communication to come in and say hey, watch it!

This is all built on an assumption, I suppose, that behind every single failure of one kind or another lies a management problem, that poor management, ineffective management, management that is distracted by outside financial and other business interests or whatever is a feature of all of this. What we have observed is that management may look very good when things are good, but when things turn not so good they may become what some people call cosmetic managers. Our job, I think, in working with auditors and working with directors is to try to ensure that turn does not occur when the markets turn.

Mr. Layton: You talked in your opening remarks and again in item three in that series of three of risk and regulation, and finally you talked of the active and reactive supervisory programs that would be essential. I take it in listening to your response to the first question that these are the active programs; the reactive ones come if something goes wrong or if you identify a potential problem, and those might not be as identifiable today. Because they are reactive you would be looking for input before you would react.

Mr. Mackenzie: Yes.

Mr. Layton: I had only one more question. Deposit insurance levels were established some years ago at \$60,000 per depositor at an institution. Is there any need

[Traduction]

précisément ce qu'ils font. Ce programme est donc en cours.

Ensuite, nous participons activement, et nous l'avons toujours fait, à la rédaction de règles comptables et d'évaluations appropriées, nous rédigeons ces règles comptables avec les comités consultatifs composés de vérificateurs, industrie par industrie, et veillons à ce que ces règles qui sont établies en vue de répondre aux fluctuations des marchés financiers et des transactions financières sont suffisamment prudentes. Par exemple, nous avons participé activement à la rédaction des règles régissant la comptabilisation des honoraires, pour veiller à ce que des gens peu honnêtes, ou experts dans le déguisement de bilans, ne comptabilisent, entre autres, des honoraires pour masquer d'autres problèmes.

Nous surveillons les transactions faites sur les marchés monétaires, etc., etc., nous renforçons notre savoir-faire, nous sommes en liaison constante avec l'industrie, nous surveillons les opérations effectuées sur le marché des changes, des obligations, etc.

En y réfléchissant, je crois que ces programmes pourraient donner de bons résultats. Ils fonctionnent bien pour l'instant, mais nous savons que tout est facile lorsque les choses vont bien. Tout le monde est poli, tout le monde est gentil et les réunions sont très cordiales. Je crois qu'il est bon d'établir ce genre de rapports car lorsque les choses commencent à aller un peu moins bien ou lorsque le climat se détériore, nous pouvons leur dire de faire attention.

Tout cela suppose, évidemment, qu'un problème de gestion, une mauvaise gestion, une gestion inefficace, une gestion distraite par d'autres intérêts financiers ou commerciaux président à chaque faillite, quelle qu'elle soit. Nous avons constaté que la direction semble très compétente lorsque tout baigne dans l'huile, mais lorsque les choses vont un peu moins bien, elles risquent de devenir d'habiles déguiseurs. Lors de nos discussions avec les vérificateurs et avec les directeurs, nous essayons de nous assurer que cela ne se produira pas lorsque les marchés dégringoleront.

M. Layton: Votre déclaration liminaire renferme trois paragraphes sur les risques et la réglementation et le dernier porte sur les programmes préventifs de surveillance qui, à votre avis, s'imposent. Vous nous avez parlé des programmes que vous avez mis en place et où vous jouez un rôle actif en réponse à la première question que je vous ai posée; mais vous devez également réagir lorsque des problèmes se posent ou lorsque vous décelez des problèmes qui pourraient se poser à l'avenir. Avant de réagir, je suppose que vous cherchez à nous renseigner.

M. Mackenzie: Oui.

M. Layton: J'aurais une dernière question à vous poser. Les plafonds d'assurance-dépôt ont été établis il y a quelques années à 60,000\$ par déposant par établissement.

[Text]

for a review of that now? Is that an adequate level in light of today's value of a dollar and risk and all the other things?

Mr. Mackenzie: Well, we have not made a study of this. My own view is that it is adequate today. We do not see any situations in which institutions or the public is clamouring for a great deal more than this. The role of insurance that perhaps ought to be looked at—it is kind of a two-sided thing, and I guess, Mr. Cassidy, it was at one of our last meetings that you raised some questions with respect to co-insurance and the implications of this. One is that if people can go out into markets and through the mail, over the telephone, using agents and so forth, buy deposits that are guaranteed up to \$60,000 each, they may pay a little more for it but they do not have to go out and "earn their way in the market"; so we have to substitute a regulatory kind of discipline for that, and so forth, and we have talked about that before. That is a system risk component, by the way, in my judgment.

Secondly, though, and this is very important if you look at both the United States and Canada after things like October 19 and you compare that back to 1929, certainly the existence of widespread deposit insurance and one of its fundamental functions is to stop people running on banks when you get a stock market crash. I do not see that under any set of criteria that points to a need to raise the deposit insurance limit.

Mr. Layton: The number was right five or ten years ago, and it is right again now.

Mr. Mackenzie: I do not see any reason why it is not, but obviously there comes a point at which it should be reviewed.

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The Chairman: We have not reviewed it since. But we reviewed it in 1985.

Mr. Layton: Was that another government?

The Chairman: In this committee.

Mr. de Jong: I would like to ask some questions about CDIC. I checked this with the chairman, and he feels the questions will be in order.

The Chairman: I may bring my hammer up and rule it out of order. You asked if you could ask questions. I said there is nothing to stop you asking questions.

Mr. de Jong: Mr. Chairman, you just sit on the hammer and let me ask my questions.

I am concerned a bit about the relationship CDIC has had with the Code inquiry in Alberta and CDIC's refusal to co-operate with the inquiry concerning first investors and associate investors. Why does CDIC feel it should not co-operate and share the documentations the inquiry has requested?

[Translation]

Faut-il revoir ces chiffres? Ce plafond est-il suffisant compte tenu de la valeur actuelle du dollar, des risques encourus, etc.?

M. Mackenzie: Eh bien, nous ne nous sommes pas penchés sur cette question. Personnellement, je pense que ce plafond est suffisant. Pour l'heure, aucun établissement ne demande que ce plafond soit relevé, pas plus que le public. Il faudrait peut-être se pencher—et je crois, monsieur Cassidy, que c'est vous qui avez abordé, lors d'une de nos dernières réunions, le problème de la coassurance et de ses conséquences. Si les gens peuvent acheter des dépôts garantis jusqu'à concurrence de 60,000\$ sur les marchés, par courrier, par téléphone, en ayant recours à des courtiers, etc., il se peut qu'ils paient davantage, mais ils ne doivent pas «suer sang et eau pour le faire». Il faut donc prévoir une certaine discipline et nous en avons déjà parlé. Pour moi, c'est là encore un risque encouru.

Deuxièmement, et c'est très important tant aux États-Unis qu'au Canada, surtout après les événements du 19 octobre et si on les compare à ce qui s'est produit en 1929, l'assurance-dépôt a pour principal objet d'empêcher les gens de se ruier dans les banques pour demander le remboursement de leur argent lors d'un krach boursier. Je ne vois aucune raison de relever le plafond d'assurance-dépôt.

M. Layton: Ce plafond était suffisant il y a cinq ou dix ans, et il le demeure encore aujourd'hui.

M. Mackenzie: Je ne vois pas pourquoi il ne le serait pas, mais il faudra bien le revoir à un moment donné.

Le président: La chose avait été réétudiée en 1985, mais depuis rien n'a été fait.

M. Layton: Était-ce sous un autre gouvernement?

Le président: À ce Comité même.

M. de Jong: Je voudrais poser quelques questions sur la SADC. J'en ai déjà parlé au président, et d'après lui ces questions sont tout à fait recevables.

Le président: Il se pourrait très bien que je me serve quand même de mon marteau et que je les déclare irrévables. Vous m'avez simplement demandé si vous pouviez les poser. J'ai répondu que rien ne pouvait vous empêcher de poser des questions.

M. de Jong: Monsieur le président, gardez votre marteau pour vous, et permettez-moi d'interroger les témoins.

Je me pose en effet des questions sur le rôle joué par la SADC dans l'information ouverte par le juge Code, en Alberta, et notamment sur le refus de la SADC de coopérer et de fournir aux autorités judiciaires la documentation demandée concernant *First Investors* et *Associate Investors*.

[Texte]

The Chairman: You are free to use the inspections for CDIC on Principal Trust that are the there, and Principal Trust is the nature of our relationship. I think you are also a director of CDIC.

Mr. Mackenzie: That is right. First of all, we get into some legal issues. CDIC management has been advised by its legal counsel, in effect in a manner not opposed by the Alberta government, that it would create some dangerous precedents, and particularly dangerous precedents related to confidentiality, if under the particular legal circumstances surrounding this particular inquiry CDIC were to let these records be examined by the hearing. I am not a lawyer, and I do not understand a lot of these concerns.

As a director of CDIC, I raised the same issue in the sense you did, because I did not think in the public interest it was appropriate that CDIC not do something which might lead to a better examination of the facts in this particular case. Without recalling all the particularities of it, I was satisfied that what we were doing was responsible, was taking appropriate account of the public interest—the public interest as it related to confidentiality as much as anything else. As I say, I do not think I really fully understand all this. That it was a responsible position to take, I guess is the bottom line.

Mr. de Jong: But the court in Alberta has ordered CDIC to turn the documents over. Apparently there is now some consideration whether to appeal that decision. Am I correct on that understanding?

Mr. Mackenzie: When we took a position in the first instance, I raised the issue with the board, and when we decided to appeal the decision I raised the issue again.

Mr. de Jong: So the board has decided to recommend appealing the decision.

Mr. Mackenzie: On the legal advice and the view of management that this was the most responsible action to take, taking into account the public interest.

Mr. de Jong: You mentioned in your first answer to me that the legal opinion and recommendation you had received was that CDIC should not turn over these documents to this particular inquiry. Why this particular inquiry? Had the inquiry been constituted in another way, would you have felt you should have turned those documents over?

Mr. Mackenzie: I am not sure of all the legal reasoning here.

[Traduction]

Le président: C'est-à-dire: utilisez tant que vous voudrez les rapports d'inspection de la SADC sur *Principal Trust*, puisque c'est *Principal Trust* notre client. Si je ne me trompe vous êtes également membre du conseil d'administration de la SADC.

M. Mackenzie: Oui. Mais tout d'abord, il y a une question de droit qui se pose. L'avocat de la SADC avait mis la direction en garde, étant donné la nature particulière de l'enquête, et le gouvernement de l'Alberta ne s'était pas opposé à cet argument, en disant que cela créerait un dangereux précédent, et notamment sur la question de la confidentialité, si ces documents étaient communiqués aux autorités judiciaires. Mais je ne suis pas avocat moi-même, et le détail de ce genre de raisonnement m'échappe toujours un peu, je ne peux pas vous en dire beaucoup plus là-dessus.

Mais comme membre du conseil d'administration de la SADC, j'ai moi aussi posé la question, dans le sens où vous l'avez fait, étant donné qu'à mon avis il n'était pas dans l'intérêt du public que la SADC s'abstienne de toute intervention si celle-ci pouvait permettre de mieux tirer au clair les éléments du dossier. Sans me souvenir de tous les détails de l'affaire, j'estimais que nous avions agi de façon responsable, que nous avions tenu compte comme il convient de l'intérêt du public. . . Tout en ayant préservé la nature confidentielle de certains renseignements. Mais comme je vous le disais, je ne suis pas avocat, et il y a certainement des détails qui m'échappent. L'essentiel c'est qu'à mon avis notre attitude était tout à fait responsable.

M. de Jong: Mais le tribunal albertain a exigé que la SADC lui fasse parvenir les documents demandés. Je sais que l'on envisage maintenant de faire appel de cette décision. Est-ce bien cela?

M. Mackenzie: Quand l'affaire a été discutée en premières instances, j'en ai moi-même référé au conseil d'administration, et cette décision de faire appel a également été discutée en conseil d'administration.

M. de Jong: Le conseil a donc décidé de recommander de faire appel.

M. Mackenzie: Effectivement, sur conseils de nos avocats, et parce que d'après la direction c'était la façon la plus responsable de réagir, si l'on voulait tenir compte des intérêts de la clientèle.

M. de Jong: Dans votre première réponse à ma question, vous dites que votre conseiller juridique vous avait recommandé de ne pas communiquer les documents demandés par les autorités judiciaires, étant donné la nature de l'information qui était ouverte. Pourquoi cela? Si l'enquête avait été menée d'une autre manière, auriez-vous éventuellement décidé de communiquer les documents en question?

M. Mackenzie: Je ne peux rien vous dire sur les raisons purement juridiques qui ont pu être invoquées.

[Text]

[Translation]

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Ms Ursula Menke (Director, Legal Sector, Office of the Superintendent of Financial Institutions): I am not the legal adviser to the CDIC and I am not familiar with the precise details. The only thing I can add to the discussion is that there is a provision in the CDIC Act that requires them to keep their information confidential. I suspect it may have had a significant bearing on the particular legal advice given in the particular situation. Legal advice is usually restricted to the facts of the case. I am not sure it was the Code inquiry that was being addressed as opposed to some other situation.

Mr. Mackenzie: There is another dimension about it. I was informed there was a constitutional question in here about a provincial body gaining access to federal documentation, but I am not an expert on constitutional law.

Mr. de Jong: I was concerned about it in August of last year. I asked the Minister of State for Finance to institute a federal inquiry. In response to me in the House, he did state that the Alberta inquiry was to be a complete and open inquiry and gave assurance of all sorts of co-operation. We are now hearing because it is a provincially-constituted inquiry there are constitutional difficulties in terms of sharing information from the federal level with the provincial level. Supposedly it cannot be a complete and open inquiry because the federal part of this situation cannot be addressed by the inquiry. Perhaps we now need a federal inquiry of some sort.

Mr. Mackenzie: My problem in answering the question is that I am not a lawyer. I do not know how to proceed on this.

The Chairman: Did it have something to do with the sale by CDIC of the trust company, so that CDIC was able to sell out without any loss at all and therefore does not want to involve the details concerning the actions of the trust company?

Mr. Mackenzie: No.

Mr. de Jong: Part of the speculation is that there is some understanding CDIC asked Principal Savings and Trust to move some of its weaker loans to First Associate Investors. First Associate Investors are not covered by CDIC and Principal Savings and Trust was.

Mr. Mackenzie: I do not know, sir. I share your concern. I had exactly the same view and raised these issues at a board meeting some while ago. I do not know whether it is my part to suggest that you ask Mr. McKinlay or the people at CDIC to give you the answers.

Mme Ursula Menke (directrice, secteur juridique, Bureau du surintendant des institutions financières): Je ne suis pas chargé de conseiller la SADC sur le plan juridique, et je ne connais pas les détails précis du dossier. La seule chose que je puisse dire, pour les fins de cette discussion, c'est qu'il y a une disposition dans la Loi sur la SADC qui exige que celle-ci ne divulgue pas l'information confidentielle. Je pense que cela explique la réaction du conseiller juridique de la SADC. De toute façon ce genre de conseil porte uniquement sur le fond et les faits. Je ne suis pas non plus certaine que c'est la forme prise par l'enquête du juge Code qui est ici en question.

M. Mackenzie: Je crois qu'il y avait également un autre argument qui entrerait en ligne de compte. Je pense que la constitution effectivement avait été invoquée, puisqu'il s'agissait de donner à une instance provinciale accès à des renseignements du palier fédéral; mais je ne suis pas spécialiste de droit constitutionnel.

M. de Jong: Cette question m'avait déjà préoccupé au mois d'août de l'an dernier. J'avais demandé au ministre d'État aux finances de faire ouvrir une enquête par les services fédéraux. Il m'avait répondu, à la Chambre, que l'enquête des services de l'Alberta allait être une enquête exhaustive et publique, et il m'avait donné toutes sortes d'assurances quant à sa collaboration. Or on nous dit maintenant que cette enquête, parce qu'elle émane des services provinciaux, se heurte à un certain nombre d'obstacles constitutionnels, lorsqu'il s'agit de demander au palier fédéral certains renseignements. Si l'on exclut maintenant d'emblée la part que pourrait jouer le palier fédéral, je me pose des questions sur le caractère exhaustif et public de l'enquête. C'est-à-dire qu'il va peut-être nous falloir maintenant une enquête fédérale.

M. Mackenzie: Les difficultés auxquelles je me heurte, pour répondre à votre question, viennent de ce que je ne suis pas avocat. Je ne sais tout simplement pas comment l'on doit procéder.

Le président: Est-ce que cela aurait eu quelque chose à faire avec le fait que la SADC s'est débarrassée de la Société de fiducie, et a réussi à tout brader sans aucune perte, si bien qu'elle préfère ne pas parler de tous les détails concernant le sort des actions de la Société de fiducie?

M. Mackenzie: Non.

M. de Jong: Ce que l'on a tendance à penser c'est que la SADC a demandé à *Principal Savings and Trust* de transférer certaines de ses créances douteuses à *First Associate Investors*. Or ces deux filiales ne sont pas couvertes par la SADC, alors que *Principal Savings and Trust* l'était.

M. Mackenzie: Je ne sais pas, monsieur. Je comprends vos appréhensions. C'est exactement ce qui m'a amené à poser la question lors d'une réunion du conseil d'administration il y a quelques temps. Je ne sais pas par ailleurs si c'est à moi de vous conseiller de poser la

[Texte]

The Chairman: I think you might ask the questions in another way. Why do you not ask Mr. Hammond the number of inspections they had in Principal Trust in connection with the deposit-taking operation of Principal Trust? Over what period of time and for how long was it in difficulty during the time leading up to the seizure?

Mr. de Jong: I suspect Mr. Hammond can give us some very interesting information in answer to your questions and perhaps several other questions as well. I certainly do invite Mr. Hammond to discuss with the committee his knowledge of the situation. We will start off in terms of answering the question that was so ably posed by our capable chairman.

Mr. Hammond: Indeed, we did carry out examinations of Principal Savings and Trust as an agent on behalf of CDIC. We did that over a number of years. To give you the exact number, we were certainly in there at least once a year and sometimes more frequently. I cannot give you the exact number of examinations, but certainly we were in there on a regular basis at least once a year. I think if you have been reading the press articles, you will have noted that CDIC did take action in response to some of the reports we put before them. I think you will have noted some of the people testifying before the committee indicated CDIC was very tough with Principal Savings and Trust and took firm—

The Chairman: Mr. Cormie complained about you interfering in his bond trading and his bond holding. Is that not right?

• 1650

Mr. Hammond: We did have complaints from the company about being too aggressive in our stance in regard to the type of investments they should have. That is correct.

Mr. de Jong: Was this information shared with the provincial regulators?

Mr. Hammond: Again, Mr. Chairman, I would prefer that these answers come from CDIC, because our process was to provide CDIC with the information and then CDIC would take the action.

The Chairman: Yes, but they have no staff. It was entirely your staff that handled this matter. They have no staff. So if we go to them, they are going to say they do not know anything about what Mr. Hammond's crew did. Since we are on your estimates and it is your money that was used to do this, can you tell us?

Mr. Hammond: Indeed, Mr. Chairman, I think you will find that they do have quite a staff now. But the

[Traduction]

question à M. McKinlay, ou aux responsables de la SADC, qui pourraient vous répondre.

Le président: Vous pourriez sans doute poser les mêmes questions sous une autre forme. Pourquoi ne pas demander à M. Hammond, par exemple, combien de fois on a inspecté le service des dépôts de *Principal Trust*. Vous pourriez également demander depuis combien de temps l'affaire était en difficulté lorsque la crise a éclaté?

M. de Jong: J'imagine que M. Hammond pourrait nous donner un certain nombre de renseignements très intéressants en réponse à vos questions, auxquelles on pourrait peut-être en ajouter quelques autres. J'aimerais donc effectivement demander à M. Hammond de faire part au Comité de ce qu'il sait de l'affaire. Nous allons donc commencer par la question qui a été si bien posée par notre éminent président.

M. Hammond: Effectivement, nous avons procédé à un certain nombre d'institutions de *Principal Savings and Trust* pour le compte de la SADC. Cela s'est poursuivi sur plusieurs années. Si vous voulez en savoir le nombre exact, disons que nous nous sommes rendus sur place au moins une fois par an et parfois plus souvent. Mais je ne peux pas vous dire exactement combien d'inspection ont eu lieu, mais certainement au moins une fois par an. Si vous avez lu à ce moment-là les articles parus dans *La Presse*, vous aurez constaté que, suite aux rapports que nous lui avons soumis, la SADC a pris des mesures. Vous aurez aussi sans doute remarqué que d'après certains témoins qui ont comparu devant le Comité, la SADC n'avait pas été particulièrement indulgente à l'égard de *Principal Savings Trust*, mais au contraire très ferme. . .

Le président: M. Cormie se plaignait de ce que vous vous ingériez dans la gestion de son portefeuille. Est-ce bien vrai?

M. Hammond: En ce qui concerne les investissements que la société aurait dû faire, effectivement, *Principal Trust* se plaignait de ce que nous étions trop exigeants. C'est vrai.

M. de Jong: En aviez-vous informé les autorités provinciales?

M. Hammond: Là encore, monsieur le président, je préférerais que la SADC réponde elle-même, puisque nous n'étions là que pour l'informer, et que c'est elle ensuite qui prend des mesures.

Le président: Oui, mais elle n'a pas de personnel, si bien que c'est vous qui êtes chargé du dossier. Si nous nous adressons à la SADC, elle va nous répondre qu'elle ne sait rien de ce qu'a pu faire l'équipe de M. Hammond. Et puisque nous sommes là pour discuter de votre budget, et que ce sont bien vos ressources qui ont été utilisées pour ces inspections, pourriez-vous nous répondre?

M. Hammond: Vous vous apercevriez en fait, monsieur le président, que la SADC a à sa disposition tout un

[Text]

practice was to share information with the provincial regulators.

Mr. de Jong: It is important not just in terms of this particular case, but I think there are larger questions involved as we are entering into an area of deregulation. Certainly we are going to see all sorts of new fauna out there in terms of different types of financial institutions offering different products and so forth.

The fact of the matter in this country is that a lot of it is in shared jurisdictions. We will have to work out some sense of co-operation with the provinces in order to get a regulatory regime occurring in this country that makes sense. Otherwise, it is just going to be crazy. The lack of co-operation between CDIC and the Code inquiry and the constitutional problems and so forth does not auger well. There has to be give and take on both federal and provincial levels. I have really been concerned that a provincial inquiry, which is really an important inquiry, has not received that type of co-operation.

Mr. Hammond: Again, Mr. Chairman, I would suggest you talk to CDIC about that. But I think there have been very real efforts in the last few years to improve communications between the federal regulatory authorities and the provincial regulatory authorities.

The Chairman: How about the regulatory authority in Alberta that seems to have some idea that it can run things its own way without any interference at all?

Mr. Hammond: I am not sure which regulatory authority you are talking about.

The Chairman: I am talking about the authority in Alberta that was supposed to regulate this institution and perhaps allowed it to do things it should not have done and to do things that you recommended not be allowed.

Mr. Hammond: I come back to the point, in answer to Mr. de Jong's question, that certainly one of our efforts these days is to improve communications. One of Mr. Mackenzie's priorities is to improve communications with provincial regulators, and we are doing that.

The Chairman: You must have issued some orders and directions, did you not, to provincial regulators?

Mr. Hammond: I do not think we have the authority to issue orders and directions, but certainly we have—

The Chairman: Do you make suggestions to them in writing?

Mr. de Jong: Strong suggestions.

Mr. Hammond: We do from time to time.

[Translation]

personnel qualifié. Mais effectivement, l'habitude était de partager ce genre d'information avec les autorités provinciales responsables de la réglementation.

M. de Jong: Cela me semble important, non seulement dans cette affaire particulière, mais de façon plus générale, puisque nous abordons une ère de déréglementation. Nous allons certainement assister à la naissance de toute une série d'entités nouvelles, d'institutions financières qui offriront toute une gamme de produits très variés, etc.

Ce qui se passe dans ce pays, c'est que les responsabilités et compétences sont très souvent partagées. Il faudra essayer de mettre au point un régime de collaboration avec les provinces qui nous permette de faire appliquer la réglementation d'une manière qui ait un sens. Sinon, nous n'allons pas nous y retrouver. Le manque de collaboration entre la SADC et les autorités judiciaires autour du juge Code, pour leur enquête, et la façon que l'on a eue d'invoquer la Constitution, etc., n'augurent rien de bon. Il est important que les paliers fédéral et provinciaux vivent en bonne intelligence. Étant donné l'importance de cette enquête, je trouve très préoccupant que l'on n'ait pas jugé utile de mieux collaborer avec les autorités provinciales.

M. Hammond: Là encore, monsieur le président, je pense qu'il faudrait en parler à la SADC. Je pense que depuis quelques années, de réels efforts ont été faits pour améliorer la communication entre les instances fédérales et les autorités provinciales responsables de la réglementation.

Le président: Mais les services albertains responsables de la réglementation semblent vouloir mener leur barque à leur façon, sans la moindre ingérence de l'extérieur; qu'en pensez-vous?

M. Hammond: Je ne sais pas exactement de qui vous voulez parler.

Le président: Je parle des autorités albertaines qui étaient en principe responsables de cette institution, à laquelle elles n'auraient sans doute pas dû permettre certaines opérations que vous aviez déconseillées.

M. Hammond: Je reviens sur ce que j'avais commencé à dire, en réponse à la question de M. de Jong. L'un de nos objectifs, tous ces temps, est d'améliorer la communication. Une des priorités de M. Mackenzie est d'améliorer la communication avec les responsables provinciaux de la réglementation; nous nous y employons.

Le président: J'imagine que vous avez fait parvenir des ordres, ou des directives, aux autorités provinciales?

M. Hammond: Je ne pense pas que nous soyons autorisés à leur donner des ordres ni des directives, mais nous avons certainement...

Le président: Les conseillez-vous par écrit?

M. de Jong: De façon pressante?

M. Hammond: De temps en temps.

[Texte]

The Chairman: And you did in this particular case on a number of occasions, did you not?

Mr. Hammond: Again, the suggestions would come via CDIC.

The Chairman: Since we are dealing with your estimates and your correspondence, is there any reason why we cannot have that correspondence between you and the Alberta regulator tabled before this committee?

Mr. Hammond: I would have to take legal advice on that, Mr. Chairman.

Ms Menke: Mr. Chairman, right now that issue is before the courts. It is in the process of being—

The Chairman: Not before our courts, maybe with respect to the Code inquiry. But your estimate is our vote, and if we are going to vote on this, we want to see the papers. Now, do you think that is unfair? What do we do, cut you off until you pay the papers?

Ms Menke: I would suggest, Mr. Chairman, that the request for the documents should be through the CDIC, since we were acting as their agent.

• 1655

Mr. McCrossan: He is right again, Mr. Chairman.

Mr. Layton: Let us continue here.

Mr. Cassidy: In effect what Ms Menke is saying, and with respect, is that—

The Chairman: I do not know.

Mr. Cassidy: —you throw the thing back into a morass from which it is impossible to retrieve it. The institution in question is dead and—

The Chairman: It was sold, was it not?

Mr. Cassidy: The correspondence I do not believe can be deemed to have any material effect on any living, breathing institution. And we are here, among other things, not just to vote funds but also to, if you will, judge on the adequacy of the administration of the work of the Office of the Superintendent of Financial Institutions, and I think the correspondence in question is material to that question.

I believe that in general there has to be more openness about this, particularly after the sorry and tragic events we have experienced from the time of the collapse of Seaway and Crown Trust and those companies in Ontario several years ago to today. Things are just starting to kind of smooth down and the new superintendent has, if you will, exercised a good deal more control over what has been happening than perhaps his predecessor did. But I do not think this should lull us into a sense of complacency, and maybe the superintendent himself can answer this question.

[Traduction]

Le président: Et dans cette affaire, vous l'avez fait à diverses reprises, n'est-ce pas?

M. Hammond: Mais là encore, cela passerait par la SADC.

Le président: Puisque nous discutons de votre budget et de votre correspondance, pourrions-nous avoir, au Comité, la correspondance que vous avez pu échanger avec les autorités albertaines?

M. Hammond: Il faudra que je consulte notre avocat pour cela, monsieur le président.

Mme Menke: Monsieur le président, la question est pour le moment entre les mains des tribunaux. On est en train. . .

Le président: Vous me parlez de l'enquête du juge. Je parle ici de votre budget, que nous devons voter, et pour cela, nous avons besoin d'un certain nombre de documents. Est-ce que vous acceptez l'argument? Que voulez-vous que nous fassions, vous couper les vivres jusqu'à ce que nous ayons les documents?

Mme Menke: Je proposerais, monsieur le président, que cette demande soit adressée à la SADC, puisque nous agissons en son nom.

M. McCrossan: Il a raison encore une fois, monsieur le président.

M. Layton: Poursuivons.

M. Cassidy: En fin de compte, ce qu'a dit M^{me} Menke, en toute déférence, c'est que. . .

Le président: Je ne sais pas.

M. Cassidy: . . . vous replongez le tout dans un marécage dont il est impossible de l'extraire. L'institution en cause est morte et. . .

Le président: On l'a vendue, n'est-ce pas?

M. Cassidy: Je ne peux croire, que la correspondance ait eu des effets concrets sur une institution bien en vie. Et nous sommes ici non seulement pour approuver des crédits, entre autres choses, mais aussi, si l'on veut, pour porter un jugement sur l'administration des travaux accomplis par le Bureau du surintendant des institutions financières, voilà pourquoi j'estime que la correspondance en question est pertinente.

En général, je pense qu'il devrait y avoir moins de cachoteries dans ce domaine, notamment à la lumière des événements regrettables et tragiques qui se sont produits depuis l'effondrement de la *Seaway and Crown Trust* et d'autres sociétés ontariennes, depuis plusieurs années. Les choses commencent à peine à se tasser et le nouveau surintendant a exercé, si l'on peut dire, un bien meilleur contrôle que son prédécesseur sur ce qui s'est produit. Ce n'est pas une raison toutefois pour nous reposer sur nos lauriers, mais le surintendant lui-même pourrait peut-être répondre à la question.

[Text]

Mr. McCrossan: Mr. Chairman, just before that is undertaken, it would seem to me that we have a difficult procedural issue here. I put the analogy that if Mr. Hammond or Mr. Mackenzie gave advice to a Minister about a federally regulated corporation, the Minister could well stand up here and answer it or not. This committee has no power whatsoever to ask a Minister to produce internal memoranda advising him of situations. The Minister is accountable for his actions and has to answer to the committee or to the House or whatever, and they are surely in a similar position here. Giving advice is essentially privileged information, except that you can only examine the people who received the advice and question them about what they did with it. You cannot go on a fishing expedition.

I mean, if this was a federally regulated corporation and the advice was given to the Minister of Finance and the Minister of State for Finance, the committee could not go along and say table all of your documents or all of the information you gave the Minister. The committee could call the Minister in front of it and ask the Minister about it, which is what they are suggesting, which is the analogous situation.

So it seems to me, and once again my conclusion is that what Ms Menke said was right, that if you wish to pursue it, we have ample opportunity to call CDIC in front of us and to ask them about it. But it is not reasonable to ask the people who are consultants to somebody to be the ones who testify, because then they are asked to give an evaluation on how their information was processed. It seems to me that is putting the accountability at the wrong level.

An hon. member: Hear! Hear!

The Chairman: Mr. McCrossan, I am not sure about that. It seems to me that what we have is a situation where our federal agency acts as an inspection agency to make sure that the credit of Canada is not used improperly. We have done a number of things in working with the regulator for this Alberta company, and when we are insuring Alberta or any other provinces' trust companies or their depositors, surely we must figure out how we are going to do that in order to have some ability to move.

Now, the CDIC Act deals with this to some extent but it does not deal with the practical problems of. . . Here is a practical problem. We have an organization that is not licensed federally, that is insured by the Canada Deposit Insurance Corporation and the inspection system for that organization happens to be the federal inspector through the superintendent's office. Now, if we have not got some power and some clout and if we cannot force people to obey directions, then we have real problems.

[Translation]

M. McCrossan: Monsieur le président, avant qu'il ne le fasse, je trouve que nous devons trancher auparavant une délicate question de procédure. En guise d'analogie, si M. Hammond ou M. Mackenzie conseillaient le ministre au sujet d'une société à charte fédérale, le ministre aurait alors le choix de répondre ou de ne pas répondre. Le Comité n'est nullement autorisé à exiger d'un ministre qu'il nous transmette des notes de service internes qui lui sont remises pour sa gouverne. Le ministre doit rendre compte de ses actions auprès d'un comité ou auprès de la Chambre, mettons, et il est évident que la situation actuelle est de cet ordre. Somme toute, les conseils qu'il reçoit sont des renseignements privilégiés, sauf que l'on peut interroger la personne qui a reçu tel ou tel conseil et lui demander quelle suite elle a donnée. Nous ne sommes pas autorisés à aller à la pêche.

À mon sens, s'il s'agit d'un conseil fourni au ministre des Finances et au ministre d'État aux Finances au sujet d'une société ayant une charte fédérale, le Comité ne peut exiger que tous les documents soient déposés ou que tous les renseignements fournis au ministre lui soient communiqués. Le Comité est en mesure de convoquer le ministre et de l'interroger à ce sujet, ce qui correspond à leur proposition, et ce en quoi repose l'analogie.

J'estime, par conséquent, et la conclusion que je tire est encore une fois celle que M^{me} Menke juge bonne, que si nous voulons nous renseigner davantage, nous aurons amplement l'occasion de convoquer la SADC et de l'interroger à ce sujet. Mais je trouve déraisonnable d'obliger à témoigner ceux qui fournissent des conseils à quelqu'un, car cela équivaut à leur demander d'évaluer la façon dont ils se sont servis des renseignements qu'ils possédaient. Pour moi, c'est appliquer la notion de responsabilité au mauvais niveau.

Une voix: Bravo!

Le président: Monsieur McCrossan, j'ai des doutes à ce sujet. À mon sens, ce qui est en cause ici, c'est qu'un organisme fédéral ayant des pouvoirs d'inspection doit s'assurer que le crédit du Canada est employé à bon escient. Nous avons fait un certain nombre de choses de concert avec l'organisme qui régit cette société albertaine, et lorsque nous assurons les trusts ou leurs dépositaires, soient-ils de l'Alberta ou de toute autre province, il est évident que nous devons établir comment nous devons nous y prendre, si nous voulons avoir toute latitude d'agir.

Or, la loi constituant la SADC en fait mention dans une certaine mesure, mais sans toucher aux problèmes pratiques de. . . Voici un problème pratique. Prenons une organisation qui n'a pas de charte fédérale, qui est assurée par la Société d'assurance-dépôts du Canada et qui est assujettie à un régime d'inspection devant être administré par un inspecteur fédéral par le truchement du bureau du surintendant. Or, si nous n'avons pas les pouvoirs ou les moyens d'agir qu'il nous faut, si nous ne pouvons obliger les gens à obéir aux instructions, alors là, nous sommes en difficulté.

[Texte]

[Traduction]

• 1700

Mr. Mackenzie: Mr. Chairman, there are some aspects of this that perhaps are not quite clear to the committee at the moment. First, in this situation we acted as the agent of CDIC and were paid by CDIC. Secondly, the files in question are not our property and are not in our possession. Those files and those letters and correspondence are in the possession of CDIC and they are the property of CDIC. I do not believe it is within our power to give you property that is not ours.

Mr. de Jong: Let us perhaps put it this way, then. Conceivably when we get CDIC in front of us CDIC will say well, we might agree, but we are going to go back and ask the superintendent. Would you agree CDIC should be able to release to us those letters and documents?

Mr. Mackenzie: If CDIC were to tell me that in their judgment it was subject only to our veto, if you like, or our judgment, and as far as they are concerned they would be happy to see these things released, then we would go along with that, sure. But we do not have them. They are not in our office.

Mr. de Jong: I understand that.

Mr. Cassidy: Step by step, we can peel this onion. Is that right?

Mr. Mackenzie: I must say I do not disagree with your concerns about the need to build up relationships and effective ways of working with provincial regulators, where we have federally insured institutions that operate with provincial licences, where we have federally regulated institutions operating in securities businesses or other businesses, where we have some companies within a conglomerate group that are insurance companies under our jurisdiction, others that are insurance companies under somebody else's jurisdiction, some regulated, some not. This is a major area of worry to us.

Mr. de Jong: If there is a federal inquiry at any time and it involves a group of companies that are also in part under provincial jurisdiction, we would want the co-operation of those provincial jurisdictions—

Mr. Mackenzie: Sure.

Mr. de Jong: —because you will not be able to get a complete picture without all the people involved participating.

Mr. Mackenzie: What I can say, sir, is that, just as I said earlier, maybe one of my problems is to identify, among 1,000 tasks to do, which is the most important. But capital adequacy and the kind of situation we described earlier this afternoon is one, and this area is another, that I would put very high on our list of priorities to wrestle with over the coming months, because I think it is a potentially very dangerous situation.

The Chairman: You had better believe it.

M. Mackenzie: Monsieur le président, il y a des aspects de cette question que le Comité n'a peut-être pas envisagés clairement. Tout d'abord, nous avons agi en l'occurrence en tant qu'agent de la SADC, qui nous a rémunérés. Deuxièmement, les dossiers en question ne nous appartiennent pas et ne sont pas en notre possession. Ces dossiers, ces lettres, cette correspondance se retrouvent entre les mains de la SADC, à qui tout cela appartient. Je crois bien que nous ne sommes pas autorisés à vous fournir ce qui ne nous appartient pas.

M. de Jong: Mettons donc les choses ainsi. On peut s'imaginer que, lorsque la SADC viendra témoigner, elle nous dira: bon, d'accord, mais nous devons auparavant demander la permission du surintendant. Ne croyez-vous pas que la SADC devrait être autorisée à nous fournir ces lettres et ces documents?

M. Mackenzie: Si la SADC me disait qu'elle juge bon d'agir ainsi, sous la seule réserve de notre veto, si vous le voulez, ou de notre jugement, et qu'elle va fournir volontiers ces documents, il est sûr que nous n'allons pas nous y opposer. Mais nous ne les avons pas. Ils ne sont pas dans nos bureaux.

M. de Jong: Je comprends cela.

M. Cassidy: Il faut éplucher l'oignon, une pelure à la fois, n'est-ce pas?

M. Mackenzie: Bien entendu, je ne m'oppose pas à votre idée, c'est qu'il faut établir des contacts et des dispositifs efficaces de collaboration avec les régies provinciales, dans le cas des institutions assurées par le fédéral mais dotées d'une charte provinciale, ou bien d'institutions régies par le fédéral et oeuvrant dans le secteur des titres ou dans d'autres secteurs, ou bien de sociétés, faisant partie d'un conglomerat, qui sont des sociétés d'assurance relevant de notre compétence, ou bien de sociétés d'assurances qui relèvent de la compétence de quelqu'un d'autre, et dont certaines sont réglementées. C'est aussi notre principale préoccupation.

M. de Jong: En cas d'enquête fédérale portant sur un groupe de sociétés qui relèvent en partie de la compétence d'une province, nous aimerions pouvoir compter sur la collaboration de ces régies provinciales. . .

M. Mackenzie: Bien sûr.

M. de Jong: . . . car il est impossible de se faire une idée juste de la situation, si on ne peut compter sur la participation de tous les intéressés.

M. Mackenzie: Je ne peux que répéter ce que j'ai dit tantôt, que l'un de mes problèmes, c'est d'établir, parmi mes tâches, celle qui est la plus importante. Mais la suffisance de capitaux, le genre de situations dont nous parlions plus tôt cet après-midi, ainsi que ce cas, voilà des tâches qui vont figurer à la tête de notre liste de priorités au cours des mois qui vont suivre, vu les risques potentiels.

Le président: Cela ne fait aucun doute.

[Text]

Mr. Cassidy: I was involved in the legislative committee in the Ontario legislature that looked into the handling of the Greymac and Seaway affair. I think it was back in 1982 or 1983 when that committee sat. What we learned then about the way in which the provincial superintendent of insurance fumbled the ball in conjunction with its counterparts in your predecessor's office here at the federal level... it was well on to being criminal. If the lessons that were drawn from that about the need for closer co-operation had been adequately learned at that time, I believe we might have saved the taxpayers of this country \$1 billion or more that eventually went into the bailing out of the western banks, and goodness knows how much else into other financial institutions, because we have only in the last two years finally come around to begin to revise the institutional structure of superintendence.

With hindsight, when I look at what we saw there and how inadequate and how complacent that was, and how necessary and essential actions did not get taken because so-and-so is on holiday, and gee, we cannot do it until they come back from Hawaii... or various things like that... it was really awful. I have certainly been marked... That is one of the reasons why I think some degree of co-insurance is necessary. In the end you cannot totally rely on regulation when it is the government that wants to compete.

Mr. Mackenzie: Mr. Cassidy, where we have specific situations—and I do not like to speculate what the specific situations are—we are building current experience relating to provincial regulators. We are not being very shy or passive about the kind of things we think should be done or approaches taken. I think we are developing on a case by case basis the kind of communications I hope are going to correct some of the deficiencies you have observed from earlier times. We are well aware of this, and it is one of our major concerns this year. We cannot get 100%, I suppose.

• 1705

Mr. Warner: Mr. Mackenzie, I appreciate in your opening remarks the three main messages you are focusing your efforts on. You mentioned we have a high system risk in our financial markets and it is getting riskier. You are hoping that financial institutions will govern and regulate themselves perhaps more efficiently, more effectively. Obviously it is very difficult to put life back into a dead horse or deal with a casualty that has occurred.

I cannot help but think of the property and casualty industry, who have very capable management. Periodically, when business is really good they start to do obviously stupid things. They have a cycle that does not necessarily coincide with the business or economic cycles, but they will start underwriting risks that they normally would not do. They provide much broader coverages than

[Translation]

M. Cassidy: J'ai siégé au sein du comité législatif du Parlement ontarien qui a fait enquête sur l'affaire Greymac and Seaway. C'était en 1982 ou en 1983, je pense. Ce que nous avons appris à l'époque, quant à la maladresse du surintendant provincial des assurances, lors de ses contacts avec ses homologues fédéraux au bureau de votre prédécesseur... cela frisait le crime. Si la nécessité d'une étroite collaboration avait été bien comprise à ce moment-là, on aurait épargné aux contribuables canadiens, à mon avis, au moins 1 milliard de dollars qu'il a fallu déboursier pour sauver les banques de l'Ouest, sans parler des sommes mal connues que l'on a englouties dans d'autres institutions financières, car ce n'est que depuis deux ans que nous avons enfin songé à remanier les structures organiques de la surintendance.

En rétrospective, lorsque l'on voit dans quelle mesure les autorités, par indifférence, ne se sont pas révélées à la hauteur de la tâche, que certaines mesures essentielles n'ont pas été prises parce que quelqu'un était en vacance et, ma foi, n'auraient rien pu faire avant son retour d'Hawaii... ou pour divers autres motifs de ce genre... c'était à en pleurer. Cela m'a sûrement marqué... Pour cette raison, parmi bien d'autres, j'estime qu'un certain niveau de coassurance s'impose. En fin de compte, on ne peut totalement se fier à la réglementation, lorsque le gouvernement en fait un domaine de concurrence.

M. Mackenzie: Monsieur Cassidy, dans des cas précis—mais sans vouloir spéculer sur la nature de ces cas précis—nous acquérons une certaine expérience des contacts avec les régies provinciales. Nous ne sommes ni timides ni passifs devant les tâches à accomplir ou les démarches à faire. Selon l'affaire en cause, nous établissons des modes de communication qui, espérons-nous, vont combler certaines des lacunes que vous avez observées jadis. Nous en sommes entièrement conscients, et c'est l'une des tâches importantes que nous nous sommes fixés cette année. Il est impossible d'obtenir 100 p. 100 de collaboration, j'imagine.

M. Warner: Monsieur Mackenzie, je retiens de votre exposé les trois principales tâches sur lesquelles vous voulez déployer vos efforts. Vous avez parlé des risques qu'offrent nos marchés financiers, risques qui ne cessent d'augmenter. Vous exprimez l'espoir que nos institutions financières vont se régir et se réglementer avec peut-être un peu plus d'efficacité et d'efficacité. De toute évidence, il est bien difficile de ressusciter un cheval mort ou de réparer les pots cassés.

Je ne peux m'empêcher de songer aux sociétés d'assurances générales, qui sont bien administrées. A intervalles périodiques, lorsque les affaires vont bien, elles font des choses manifestement stupides. Leur cycle ne correspond pas nécessairement à celui des affaires ou de l'économie, mais elles acceptent des risques qu'elles ne prendraient pas normalement. Elles offrent une

[Texte]

they normally would, and at lower premiums. Every so often, Mr. Hammond has a few more regular customers. It was not too long ago he was before the committee and said he had a few regular customers at that time. We have seen mergers and reorganizations, and many were nursed along privately so there was never any public discussion as to their financial well-being.

As the cycle appears to be starting up again where the property and casualty market is starting to change in a way we have seen before, is your office reacting any differently than you or your predecessors have in the past? Do you have any way of influencing in a way you think appropriate the operations of these companies as you foresee a predictable scenario starting to occur?

Mr. Hammond: Well, I think we have taken a number of initiatives, and I think one of the most important initiatives was the legislation passed last summer, Bill C-56. That included a lot of the recommendations from this committee. I think you will remember we did strengthen the minimum continuing capital and surplus requirements for property and casualty insurance companies. We changed the tests, such that companies with rapidly expanding business or with claims experience will now have to meet tougher standards. We introduced a requirement for an actuarial report on the adequacy of claims reserves, the adequacy of the reserves to meet the claims that have already been incurred. But we are also expecting an actuarial opinion with respect to the adequacy of the liability for unearned premiums to meet future claims.

So indirectly you get at the adequacy of the premium levels. If the actuary is not satisfied that the current premiums are sufficient to provide for future claims, then there will be a requirement for a deficiency reserve.

The government passed some provisions relating to a greater control over reinsurance. In fact, because of some of the lessons we learned from the failures, the government has taken those initiatives—on the recommendation of this committee.

In addition, we are improving our monitoring procedures. We have implemented a series of early warning tests that we follow very closely in the office now. We have changed the focus of our examination procedures. We are looking at business plans and what management intends to do. Indeed, if we thought a company was acting irresponsibly, we would try to seize the initiative and see that the plans are changed. So there have been a number of initiatives. So there have been a number of initiatives. Mr. Mackenzie also mentioned, for example, the meetings with the audit committees and initiatives of that type. So we have been doing a number of things, but the legislative changes were certainly key to this process.

[Traduction]

protection supérieure à la normale, à un coût plus bas. M. Hammond obtient un peu plus de clients réguliers. Il n'y a pas si longtemps qu'il a comparu devant le Comité pour lui dire qu'il avait quelques clients réguliers à l'époque. Des fusions et des remaniements ont eu lieu, dont beaucoup en coulisse, de sorte que leur bien-fondé sur le plan financier n'a jamais fait l'objet d'un débat public.

Étant donné qu'un nouveau cycle se manifeste, alors qu'un marché des assurances générales se met à évoluer selon un mode jamais vu jusqu'à présent, votre bureau a-t-il un comportement différent du vôtre ou de celui de vos prédécesseurs dans le passé? Pouvez-vous exercer une influence que vous jugez convenable sur le comportement de ces sociétés, dans la mesure où un scénario prévisible émerge à vos yeux?

M. Hammond: Je crois que nous avons pris un certain nombre d'initiatives, dont l'une des plus importantes, à mes yeux, est le projet de loi C-56 adopté l'été dernier. Nous y avons donné suite à une foule de recommandations émanant de votre Comité. Vous vous souviendrez que nous avons renforcé les exigences minimales imposées aux sociétés d'assurances générales quant au capital permanent et aux réserves. Nous avons modifié les critères, de sorte que les sociétés en plein essor ou devenues expertes en réclamations doivent se conformer désormais à des normes plus strictes. Nous exigeons dorénavant un rapport d'actuaire au sujet des réserves relatives aux réclamations, les réserves permettant de donner suite aux réclamations déjà faites contre la société. Mais nous escomptons également l'opinion d'un actuaire quant à la responsabilité pour les primes non encaissées, en prévision des réclamations à venir.

C'est donc un moyen contourné d'établir la suffisance des primes. Lorsque l'actuaire juge que le barème des primes est incompatible avec le montant des réclamations à venir, il exige qu'une réserve d'appoint soit constituée.

Le gouvernement a aussi adopté des mesures qui permettent d'exercer un meilleur contrôle sur la réassurance. En fait, vu les leçons que certaines faillites nous ont apprises, le gouvernement a pris ces initiatives, sur les recommandations de votre Comité.

En outre, nous avons amélioré nos procédures de surveillance. Nous avons mis en oeuvre une série de critères précoces que notre bureau suit désormais de très près. Nous avons modifié l'objet de nos procédures d'examen. Nous nous arrêtons au plan des entreprises et aux intentions des administrateurs. En fait, si nous nous apercevons qu'une société agit de façon irresponsable, nous nous efforçons de prendre l'initiative et de lui faire modifier ses plans. Il y a donc eu des initiatives de notre part. Il y a donc eu des initiatives. M. Mackenzie a aussi mentionné par exemple les rencontres avec les comités de vérification et ce genre d'initiatives. Nous avons donc accompli un certain nombre de choses, mais les modifications législatives ont certainement joué un rôle clé.

[Text]

[Translation]

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Mr. Warner: When does the actuarial report come in? What is the time lag on that?

Mr. Hammond: The companies are required to file with us a statement as at December 31. That must be accompanied by an actuarial report, and those statements and reports are due on March 1. So we are receiving them today.

Mr. Warner: On your early warning test, what form is that in?

Mr. Hammond: There are a number of factors—and I could provide the committee with details if you are interested—including the relationship between premiums and capital and surplus. . . There is a whole series of tests that are rather technical, and I would be glad to provide—

The Chairman: Would you do that when you come back on Tuesday?

Mr. Hammond: Yes, I would be glad to provide you with the details of those tests.

Mr. Warner: You have had companies on a fairly short leash before. I mentioned that, and you have mentioned it to us as well. Do you have some now?

Mr. Hammond: I guess I would like to say that our job is to monitor companies closely. I do not know whether having them on a short leash is the right expression.

Certainly we watch some companies more closely than others, and you are always going to have that situation. By and large, the property and casualty insurance industry has been doing better than it did a few years ago, although, as was indicated, there are signs that the cycle is beginning to turn again.

Mr. McCrossan: May I ask a supplementary on this?

The Chairman: I had hoped you would keep off that until Tuesday.

Mr. McCrossan: The supplementary has to do with reserve adequacy. You have been before us for several years now, and there have been indications that you have been very concerned about the adequacy of claims reserves, particularly long-tail claims reserves.

The Chairman: Do you want to get into the whole question of reserves at the same time? We had a number of recommendations in our report on the white paper.

Mr. McCrossan: Okay. Are you satisfied that today's claims reserves are adequate?

Mr. Hammond: I will be able to answer that question better once we have reviewed the actuarial reports that are due today or that we are receiving this week. We have generally held the view that there is no question that reserves need to be strengthened, and there has certainly been a move in that direction. Certainly the requirement for actuarial reports and special reports on claims reserves

M. Warner: Quand le rapport actuariel est-il présenté? Quel est le délai?

M. Hammond: Les compagnies doivent nous présenter un bilan au 31 décembre. Ce bilan doit être accompagné du rapport actuariel, et ces déclarations et rapports doivent être présentés le 1^{er} mars. Donc, nous les recevons aujourd'hui.

M. Warner: Sous quelle forme se présentent vos critères de détection rapide?

M. Hammond: Il y a divers facteurs, mais je pourrais vous en communiquer le détail si vous le voulez, notamment le rapport entre les primes et le capital et l'excédent. . . Il y a toute une série de critères assez technique, et je vous les communiquerai volontiers. . .

Le président: Pourriez-vous le faire quand vous reviendrez mardi?

M. Hammond: Certainement.

M. Warner: Il vous est arrivé de tenir la bride haute à des compagnies. Je l'ai signalé, et vous nous l'avez aussi dit. En avez-vous actuellement?

M. Hammond: Disons que notre travail consiste à surveiller de près les compagnies. Je ne sais pas si l'on peut vraiment dire que nous leur tenons la bride haute.

Il est exact que nous en surveillons certaines de plus près que d'autres, et que ce sera toujours le cas. Dans l'ensemble, les assurances générales se portent mieux qu'il y a quelques années, bien que certains signes, encore une fois, permettent de penser que l'on entre dans une nouvelle phase du cycle.

M. McCrossan: Pourrais-je poser une question supplémentaire à ce sujet?

Le président: J'espérais que vous attendriez mardi.

M. McCrossan: C'est une question supplémentaire sur la pertinence des réserves. Voilà plusieurs années que vous venez comparaître devant nous, et vous semblez être particulièrement préoccupé par la pertinence des réserves pour indemnités, en particulier, des réserves pour les affaires à liquidation lente.

Le président: Vous voulez attaquer toute la question des réserves en même temps? Nous avons présenté un certain nombre de recommandations dans notre rapport sur le Livre blanc.

M. McCrossan: Bon. Vous estimez que les réserves actuelles pour indemnités sont suffisantes?

M. Hammond: Je serai mieux en mesure de répondre à cette question une fois que nous aurons étudié les rapports actuariels que nous devons recevoir aujourd'hui ou que nous recevons cette semaine. Dans l'ensemble, nous estimons qu'il faut incontestablement renforcer ces réserves, et c'est la tendance générale qui se dessine. Les rapports actuariels et les rapports spéciaux sur les

[Texte]

is a move in trying to make sure that the reserves are adequate. So we intend to review these reports closely. Indeed, we are taking a number of other measures. In cooperation with the Canadian Institute of Actuaries and the IBC, we are trying to develop a better statistical plan or system of information for measuring the run-off of claims and getting better information on them.

Mr. McCrossan: You indicated, in general I guess, that the levels are not inappropriate but they need to be strengthened. What surprised me about that, of course, is that last June in the white paper on taxation there was a recommendation that about \$1 billion of long-tail reserves should be released. May I ask what prior consultation your department had with the tax policy people when they decided that \$1 billion of reserves should be released?

Mr. Hammond: Certainly we did have some consultations with the people at the Department of Finance in regard to the principle of whether or not we should be accepting reserves on a discounted basis. In theory, it is difficult for us to argue with the concept of discounting. But what we have always said is that while discounting makes sense on the theoretical basis, we do not think we can accept discounted reserves until we are satisfied that proper standards are in place for the determination of those reserves on a discounted basis.

Mr. McCrossan: Turning it around, then the discounted reserve is only appropriate if the proper amount of claim has been set up in the first place.

Mr. Hammond: Exactly.

Mr. McCrossan: Your view, which you just expressed earlier, was that there is still a need to strengthen reserves. If you feel that the reserves need to be strengthened, how can you dovetail that with the dictum that has come out from tax policy that the reserves need to be weakened?

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Mr. Hammond: Well, I cannot speak on behalf of the tax policy people.

Mr. McCrossan: Can I ask you then whether you indicated that you disagreed with their basic assessment?

Mr. Warner: I think that is what he says.

Mr. Hammond: What we did indicate was that there was a timing problem and I think that has been worked out. There have been some discussions with the industry, and as I understand it a satisfactory solution is going to be worked out. I guess the point we made was that we do not think reserves calculated on a discounted basis in accordance with proper standards will, for most companies, differ significantly from the reserves that are currently being held; even those reserves are purported to be calculated on a non-discounted basis.

[Traduction]

indemnités soulignent incontestablement qu'il faut s'efforcer d'avoir un niveau de réserve suffisant. Nous avons donc l'intention d'examiner de très près ces rapports. Nous prenons d'ailleurs d'autres mesures. En collaboration avec l'Institut canadien des actuaires et le BAC, nous essayons d'élaborer un meilleur plan ou un meilleur régime statistique d'information pour mesurer le débordement des indemnités et obtenir de meilleurs renseignements à ce sujet.

M. McCrossan: Vous avez dit d'une manière générale, je pense, que les niveaux n'étaient pas anormaux mais qu'il fallait les consolider. Ce qui m'a étonné à ce sujet, évidemment, c'est que le livre blanc sur la réforme fiscale de juin dernier a recommandé de débloquer environ un milliard de dollars de réserves pour affaires à liquidation lente. J'aimerais savoir à quelle consultation votre ministère s'est livré préalablement avec les responsables de la politique fiscale pour décider de débloquer un milliard de dollars de réserves.

M. Hammond: Nous avons effectivement consulté les responsables du ministère des Finances sur le principe de l'acceptation ou non des réserves actualisées. En théorie, nous avons du mal à contester le principe de l'actualisation. Mais nous avons toujours dit que si cette notion se défendait sur le plan théorique, il nous semblait difficile d'accepter le principe des réserves actualisées tant que nous n'étions pas convaincus qu'il y avait des normes satisfaisantes pour déterminer le montant de ces réserves sur une base actualisée.

M. McCrossan: Pour renverser l'argument, la réserve actualisée ne se justifie que dans la mesure où l'on a établi au départ le montant correct de l'indemnité.

M. Hammond: Exactement.

M. McCrossan: Votre point de vue, que vous avez déjà exprimé, est qu'il faut encore consolider des réserves. Comment pouvez-vous faire cadrer cet argument avec une politique fiscale qui décide qu'il faut diminuer les réserves?

M. Hammond: Je ne suis pas le porte-parole de ces responsables de la politique fiscale.

M. McCrossan: Dans ce cas, puis-je vous demander si vous leur avez dit que nous n'étiez pas d'accord avec eux?

M. Warner: Je pense que c'est ce qu'il dit.

M. Hammond: Nous leur avons dit qu'il y avait un problème de calendrier, et je pense qu'il a été réglé. Nous avons discuté avec les représentants de l'industrie, et je pense que l'on va trouver une solution satisfaisante. Nous avons expliqué qu'à notre avis, si les réserves sont calculées sur une base actualisée en fonction de normes correctes, pour la plupart des compagnies, leur niveau ne changera guère par rapport à ce qu'il est actuellement, même si ces réserves sont actuellement calculées, en principe, sur une base non actualisée.

[Text]

Mr. McCrossan: Okay, well that leads me to my question. If the discounted reserves are to be held, are you going to impose strengthening of the reserves as a requirement from your office?

Mr. Hammond: We want to work with the Canadian Institute of Actuaries, the IBC, the Reinsurance Research Council and the Canadian Institute of Chartered Accountants and indeed all interested parties to develop appropriate standards for discounted reserves. The position we have taken in the office is that until such time as those standards are developed we will not accept reserves on the discounted basis. We have had some meetings with the CIA; indeed there is going to be another meeting next week. Everyone is interested in working together to develop appropriate standards.

Mr. McCrossan: So you have taken the position that tax policy has mandated these kinds of reserves; you will not accept them. That is what I just heard you say?

Mr. Hammond: That is correct.

Mr. McCrossan: Can I ask, going back to 1985, the last time in the cycle that companies were in serious trouble, if indeed the reserves had been released, if they had been discounted as required by the tax white paper, would companies have been insolvent? Would more companies have been insolvent as a result of the weakening of the reserves?

Mr. MacPherson: It is difficult for me to speculate on that, but certainly in terms of the levels of reserves that were held in 1985, if we had taken those reserves and merely applied a discounting factor, and if taxable income had been based on those reserves, in my opinion the P and C industry would have paid too much income tax.

Mr. McCrossan: So what is being done now to resolve this? We have a decision that has already been announced that these reserves will be mandated on a discounted basis and you said you will not accept them. Does that not mean that companies have to pay tax on earnings that they cannot release?

Mr. Hammond: Well, I think you should be talking to the people at tax policy about the solution they found.

The Chairman: There is an income tax bill coming through, and you are suggesting that we call you as a witness on that bill?

Mr. Hammond: If you would like to, Mr. Chairman.

The Chairman: Well, could we get on to that bill right now? Obviously we are going to have this income tax bill in a ways and means motion, I am told by March 23, and we want to hold hearings on that. We made very strong recommendations, as you know, in our response to the white paper concerning insurance reserves. We hear you say this afternoon that we probably were right, but the department said they do not accept any of our proposals.

[Translation]

M. McCrossan: Bon, cela m'amène à ma question. Si l'on impose les réserves actualisées, allez-vous de votre côté exiger une consolidation de ces réserves?

M. Hammond: Nous souhaitons collaborer avec l'Institut canadien des actuaires, le BAC, le Conseil de recherche en réassurance et l'Institut canadien des comptables agréés, ainsi que tous les intervenants concernés, pour élaborer des normes satisfaisantes d'actualisation des réserves. Tant que ces normes n'auront pas été élaborées, nous n'accepterons pas l'actualisation. Nous avons déjà rencontré plusieurs fois les représentants de l'ICA; nous les rencontrons encore la semaine prochaine. Tout le monde souhaite établir des normes satisfaisantes.

M. McCrossan: Vous estimez donc que la politique fiscale impose ce genre de réserves; mais vous ne les acceptez pas. C'est bien ce que vous dites?

M. Hammond: C'est exact.

M. McCrossan: Puis-je vous demander, pour en revenir à 1985, c'est-à-dire la dernière fois où les compagnies se sont trouvées dans la phase critique du cycle, si ces compagnies auraient été insolvables dans le cas où l'on aurait débloqué ces réserves, où elles auraient été actualisées comme l'exige le livre blanc? Cet affaiblissement des réserves aurait-il été fatal à un plus grand nombre de compagnies?

M. MacPherson: Ce serait de la spéculation de ma part, mais il est certain que si l'on avait supprimé ces réserves qui existaient en 1985 pour appliquer une méthode d'actualisation, et si le revenu imposable avait été calculé d'après ces réserves, je pense que l'industrie des assurances générales aurait payé trop d'impôt.

M. McCrossan: Et que fait-on pour résoudre ce problème? On a déjà annoncé la décision d'imposer l'actualisation de ces réserves, et vous dites que vous n'accepterez pas cela. Cela ne veut-il pas dire que les compagnies vont devoir payer des impôts sur les gains qu'elles ne peuvent pas débloquer?

M. Hammond: Je pense qu'il faudrait demander aux responsables de la politique fiscale quelle solution ils ont trouvée.

Le président: Il y a un projet de loi sur l'impôt qui se prépare, et vous souhaiteriez comparaître comme témoin à cette occasion?

M. Hammond: Si vous le voulez, monsieur le président.

Le président: Bon, pourrions-nous y venir tout de suite? De toute évidence, ce projet de loi sur l'impôt sur le revenu va être présenté dans une motion de voies et moyens, d'ici le 23 mars d'après ce que l'on m'a dit, et je souhaite tenir des audiences à cette occasion. Comme vous le savez, nous avons formulé des recommandations très énergiques dans notre réponse au livre blanc à propos des réserves des assurances. Vous nous dites cet après-midi

[Texte]

They put it in writing; they said that they are going right ahead.

Mr. McCrossan: Did you advise the tax people that you will not accept the reserves that. . . ?

Mr. Hammond: They are very much aware of that, yes. They are very much aware of that.

Mr. McCrossan: That advice was in writing?

Mr. Hammond: I think so; I cannot remember now, but we have frequent meetings. They are very much aware of the fact that our instructions to the companies are that we are not prepared to accept reserves on the discounted basis.

Mr. McCrossan: That has been communicated both before the December announcement and subsequent to the December announcement?

Mr. Hammond: Oh, yes. But as I indicated, I think from the point of view of the industry—of course we would have to check with the industry on this, but certainly we have not been getting a lot of calls about this particular point now—there have been discussions going on between the tax policy officials and the industry.

Mr. McCrossan: Under a bill that was passed by Parliament some two years ago, your department is obligated to turn in reports on federal government liabilities for such things as the staff pension plan and so on. Now, these reports are well overdue. I think in one case they should have been prepared in the middle of last year. Why have the reports not been prepared?

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Mr. Hammond: First of all, Mr. Chairman, I would question that there are lots of reports overdue. I think there may be one report overdue—

Mr. McCrossan: Substantially overdue.

Mr. Hammond: —that has not met the deadline. Under the provisions of the Public Pensions Reporting Act, the chief actuary is required to do these reports and send them to the Minister, who is designated by Order in Council, and then that Minister, within a certain period of time—

Mr. McCrossan: Thirty days.

Mr. Hammond: —must table those reports in Parliament. For one reason or another, a Minister has not been designated. I am informed that this will be done within the next week or so, and at that time, as soon as a Minister is designated, the Minister will be receiving the report that is due.

Mr. McCrossan: Has the report been outstanding for more than six months now? Has it taken six months to decide who to hand it to?

Mr. Hammond: It would be about six months.

[Traduction]

que nous avons probablement eu raison, mais les représentants du ministère ont rejeté nos propositions. Ils nous l'ont dit par écrit, ils nous ont dit qu'ils ne modifieraient rien dans leur plan.

M. McCrossan: Avez-vous dit aux responsables de l'impôt que vous n'accepteriez pas les réserves. . . ?

M. Hammond: Ils le savent parfaitement.

M. McCrossan: Vous le leur avez dit par écrit?

M. Hammond: Je crois. Je ne m'en souviens pas, mais nous nous rencontrons souvent. Ils savent parfaitement ce que nous recommandons aux compagnies, et ils savent très bien que nous ne sommes pas d'accord pour accepter l'actualisation des réserves.

M. McCrossan: Vous le leur avez dit avant la déclaration de décembre et après?

M. Hammond: Oh, oui. Mais encore une fois, et évidemment il faudrait que je vérifie cela auprès des représentants de ce secteur, car nous n'avons pas eu beaucoup d'appels à ce sujet, la discussion se poursuit entre les responsables de la politique fiscale et les dirigeants du secteur des assurances.

M. McCrossan: Un projet de loi adopté par le Parlement il y a deux ans environ oblige votre ministère à présenter des rapports sur les obligations du gouvernement fédéral en matière de régime de pension et autres. Ces rapports sont très en retard. Dans un cas, je crois qu'ils auraient déjà dû être préparés au milieu de l'année dernière. Pourquoi ne l'a-t-on pas fait?

M. Hammond: Premièrement, monsieur le président, je conteste cette affirmation. Il y a peut-être un rapport qui est en retard. . .

M. McCrossan: Et comment.

M. Hammond: . . . pour lequel la date fixée n'a pas été respectée. La loi sur les rapports relatifs aux pensions publiques exige que l'actuaire en chef établisse ces rapports et les adresse aux ministres désignés par décret, et que ce ministre, au bout d'un certain temps. . .

M. McCrossan: Trente jours.

M. Hammond: . . . dépose ces rapports au Parlement. Pour une raison ou pour une autre, on n'a toujours pas désigné de ministre. On me signale que cela sera fait d'ici une semaine environ, et qu' aussitôt le ministre recevra le rapport qui doit être présenté.

M. McCrossan: Ce rapport a-t-il déjà plus de six mois de retard? Il a fallu six mois pour trouver à qui il devait être présenté?

M. Hammond: À peu près.

[Text]

The Chairman: Will it be tabled in this committee?

Mr. Hammond: Now, again, the legislation requires the—

The Chairman: We are on your estimates. I do not see any reason why we cannot ask that the work being done and paid for by the people of Canada be made public to the committee of Parliament. Maybe you could think about that over the weekend. On Tuesday we have a meeting, and if you could bring that along, that would be fine.

Mr. Hammond: All right, we will take some advice on that.

The Chairman: Before I go to Miss Nicholson—and I do want to get there—perhaps you might comment, Mr. Mackenzie, on the provision in the white paper concerning bank reserves that they are going to use an historical loan loss ratio and recovery rates, and they are going to release excess reserves into income over five years. Have you had a discussion with tax policy people and with the Minister about historical losses? In good times you have no losses; in bad times you have historically high losses. Good times follow bad times. What kinds of historical or hysterical losses are we going to provide for?

Mr. Mackenzie: Mr. Chairman, we have had a number of discussions, of course, and some of them in writing, with the tax policy people related to the subject of loan loss reserves, contingency reserves and so forth. With respect to the basic change in the tax administration or the taxation law as it applies to loan losses, we are not in disagreement with what is proposed under tax reform. That is to say that essentially the loan loss deductions should be based on actual experience, and we accept the fact that the contingencies account provision that had been built up over many years will no longer be an allowable tax deduction under the new system. The logic of that would say, then, that the existing reserves should be returned to income over an appropriate transition period, and we have no particular quarrel with all that.

Where we have had a discussion, however, is on some matters that get down into the nitty-gritty; that is, what is in fact the loan loss experience? The loan loss experience, in the minds of the tax people with whom we have been discussing this, is composed of two elements: one is so-called incurred losses, write-offs—

The Chairman: Real losses, actual write-offs, yes.

Mr. Mackenzie: —and the other is loss provisions against expected losses. The third element could be loss provisions against “possible” losses.

If you look for a moment at the new accounting regime we are prescribing, which is a change from the basic traditional method of accounting for loan losses for Canadian banks, which was based on the tax model that existed under the old tax act, we have moved to charge—

[Translation]

Le président: Sera-t-il déposé à notre comité?

M. Hammond: Eh bien, la loi exige. . .

Le président: Nous parlons de vos prévisions. Je ne vois pas pourquoi nous ne pourrions pas demander qu'un travail accompli et payé par la population canadienne soit mis à la disposition d'un comité du Parlement. Vous pourriez peut-être y réfléchir pendant la fin de semaine. Nous nous rencontrons mardi, et il serait souhaitable que vous nous apportiez cela.

M. Hammond: Très bien, nous allons nous renseigner.

Le président: Avant de passer à M^{me} Nicholson, et j'y tiens, peut-être pourriez-vous faire une remarque, monsieur Mackenzie, sur la disposition du livre blanc qui concerne les réserves bancaires, et selon laquelle on va utiliser un ratio de pertes sur prêts et un taux de recouvrement historiques, les réserves en trop étant considérées comme recettes étalées sur cinq ans. Avez-vous discuté avec les responsables de la politique fiscale et avec le ministre de cette distribution dans le temps des pertes? En période faste, il n'y a pas de pertes, en période néfaste, elles sont traditionnellement élevées. Les périodes fastes et néfastes se succèdent. Quelles genres de pertes historiques ou hystériques allez-vous prévoir?

M. Mackenzie: Monsieur le président, nous avons évidemment discuté, parfois par écrit, avec les responsables de la politique fiscale de la question des réserves pour pertes sur prêts, des réserves pour imprévus etc. Nous ne sommes pas en désaccord avec ce qui est proposé dans la réforme fiscale en ce qui concerne la modification fondamentale de l'administration de l'impôt ou du droit fiscal en matière de pertes sur prêts. Autrement dit, les déductions pour pertes sur prêts doivent s'inspirer de l'expérience concrète, et nous acceptons que la disposition concernant la déduction pour éventualités ne soit plus autorisée dans le nouveau régime. Logiquement, dans ce cas, les réserves existantes devraient être réintégrées aux recettes sur une période de transition satisfaisante, et nous n'avons pas d'objection à cela.

Ce que nous contestons, ce sont certains détails: en quoi consiste l'expérience des pertes sur prêts? Du point de vue des responsables fiscaux avec qui nous en avons discuté, il s'agit de deux éléments: d'une part les pertes encourues, les créances radiées. . .

Le président: Les pertes réelles, les pertes radiées, oui.

M. Mackenzie: . . . et il y a d'autre part les dispositions relatives aux pertes prévues. En troisième lieu il pourrait y avoir les dispositions en prévision de pertes «éventuelles».

Si vous jetez un coup d'oeil sur le nouveau régime de comptabilité que nous prescrivons, qui diffère de la méthode élémentaire traditionnelle de comptabilisation des pertes sur prêts par les banques canadiennes, méthode inspirée du modèle fiscal émanant de l'ancienne loi de

[Texte]

offs based on actual loan loss experience. We have also suggested that there be room for banks to put up additional reserves over and above identified problem loans on some kind of basis. We have advised the banks that it is very unlikely that the last category of reserves will be tax deductible. Ultimately, if there are incurred losses charged up against those reserves, of course they would be. At the time those reserves are put up, they would not be.

• 1725

Mr. Cassidy: Hear! hear! What you are saying, therefore, is that the banks might have an obligation out of after tax profits to put some money aside in the case of those contingencies. And there is not a divine rule that says the taxpayer has to share every loan loss provision of the banks.

Mr. Mackenzie: That is right.

Mr. Cassidy: That is radical talk, Mr. Mackenzie.

Mr. Mackenzie: I do not know.

Some hon. members: Oh, oh!

Mr. Mackenzie: Part of our discussion with the tax policy people, I guess, is that this distinction between... There is no difficulty with the distinction between a loan loss experience component that relates to specific loans and this general reserve, or sectoral reserve or whatever that we have just been talking about. The difficulty comes between making a specific loss provision against an account and a "write-off". My experience as an auditor is that those distinctions are not very clear in practice.

The Chairman: If you are not going to allow them a tax write-off, they are going to write the whole thing off, of course, and pay the tax if and when they can recapture it.

Mr. Mackenzie: What the tax reform proposal was is that there be applied to that portion of the loan loss experience, which is loss provisions, "a prescribed recovery rate". And to that portion which is a write-off, you allow 100%. My concern about this, as a practical matter, is that it is often very difficult to draw hard lines between those two categories. I think both are forms of real losses. However, as a solution, the department has concluded it would be appropriate to add back a 10% factor related to loan loss provisions, but not the loan loss actual write-offs.

Miss Nicholson: This is all so interesting that I hesitate to introduce a new topic, but that is what I am going to do. I would like to ask some questions about the take-over of the Bank of British Columbia by the Hongkong Bank. It appears that the main people who negotiated this were from the Department of Finance. I understand the deputy minister spent about two weeks in Vancouver working on

[Traduction]

l'impôt, vous constatez que nous passons à des déductions correspondantes aux pertes réelles. Nous suggérons aussi que les banques puissent se constituer des réserves supplémentaires en plus de celles qui concernent des prêts clairement problématiques, pour une raison quelconque. Nous avons dit aux banques qu'il était très peu vraisemblable que cette dernière catégorie de réserves soit déductible. En fin de compte, si ces réserves servent à combler des pertes, elles devraient évidemment l'être. Mais au moment où elles sont constituées elles ne le seraient pas.

M. Cassidy: Bravo, bravo! Autrement dit, les banques pourraient être tenues de réserver une partie de leur profit après impôt pour ce genre d'éventualité. Et il n'existe pas de règle divine exigeant que le contribuable participe à toutes les réserves pour pertes sur prêts des banques.

M. Mackenzie: C'est exact.

M. Cassidy: Vous parlez comme un révolté, monsieur Mackenzie.

M. Mackenzie: Je ne sais pas.

Des voix: Oh, oh!

M. Mackenzie: Nous avons discuté de cette distinction avec les responsables du fisc... ce qui pose un problème, ce n'est pas la distinction entre un élément de pertes sur prêts portant sur des prêts bien précis et cette réserve générale, ou réserve sectorielle ou tout ce que l'on veut. Le problème, c'est d'établir une différence entre une provision pour pertes appliquée à un compte et une radiation pure et simple. D'après mon expérience de vérificateur, la distinction est assez subtile dans la pratique.

Le président: Si on ne leur accorde pas l'exemption fiscale, ils font passer la totalité par les pertes, évidemment, et ils paieront les impôts s'ils récupèrent leur argent.

M. Mackenzie: La proposition de la réforme fiscale était d'appliquer à la partie des pertes sur prêts constituée par les provisions pour pertes un taux prescrit de recouvrement. Pour la partie constituant une radiation, on accorde 100 p. 100. Ce qui me préoccupe dans les faits, c'est qu'il est souvent difficile de faire la différence entre ces deux catégories. Je pense que dans les deux cas il y a une perte réelle. Le ministère a estimé que la solution était d'ajouter un facteur de 10 p. 100 pour les provisions pour pertes sur prêts mais non pour les radiations réelles pour pertes sur prêts.

Mme Nicholson: Tout cela est si passionnant que j'hésite à aborder un autre sujet, mais je vais le faire quand même. J'aimerais poser des questions sur l'absorption de la banque de Colombie-Britannique par la Banque Hongkong. J'ai l'impression que ce sont surtout les gens du ministère des finances qui ont négocié cette affaire. Je crois que le sous-ministre a passé deux semaines

[Text]

it. Was your office involved in this also, in a significant way?

Mr. Mackenzie: Yes.

Miss Nicholson: I guess this is the kind of situation where it is easy to second guess after the event, and I appreciate... I suppose we would all agree that what was important here is that the bank was rescued, it is solvent, and any crisis of confidence was avoided. So these were all very satisfactory achievements. But one has to wonder about the cost, from two points of view.

CDIC, for instance, contributed \$200 million by way of provision against anticipated loan losses. Having looked at the bank's annual report recently, it appears that this estimate was over-generous, that the loan loss experience was better than anticipated. Again, I suppose one cannot criticize that; someone made the best judgment they could at the time. But the Auditor General was critical of the fact that the \$200 million was paid into an offshore bank and made the circle back and that the effect of this was to relieve the parent company, the Hongkong Bank, from any income tax obligations. I think the question still remains, is it appropriate for a Crown corporation to encourage tax avoidance?

• 1730

The other issue is that when this came before the House of Commons, we were never asked—and there was no reason why we should be asked, I suppose—to approve the sale or the transaction. There was a bill before the House that removed certain powers from the shareholders. But we were certainly not told in the House of Commons about the proposal to pay the money into an offshore bank. And again, before somebody tells me that CDIC money is not taxpayers' money, I am well aware that CDIC is financed by levies on the institutions. But nevertheless, for a very long time now, they have been running on a line of credit from the Consolidated Revenue Fund, so it is taxpayers' money. And it is doubly taxpayers' money if income tax is not paid on it.

Then we come to the cost. The sale price of the Bank of British Columbia was \$60 million. Either on the day before that \$60 million was paid in, or on the same day, the parent company removed some \$58 million which they had on deposit in their sub. One could say it was callable; this is a purely independent transaction. But to simple souls like me, if \$60 million goes in and \$58 million plus comes out, that means that bank was bought for less than \$2 million. What I come back to is of course it is good the bank was rescued and that it is solvent, but was the cost too high? Could it have been done more economically?

[Translation]

à Vancouver a y travailler. Votre bureau y a-t-il aussi contribué de façon importante?

M. Mackenzie: Oui.

Mme Nicholson: Je pense que c'est le genre de situation où il est facile de refaire le monde à posteriori, et je comprends... je crois que nous sommes tous d'accord pour dire que l'important était de sauver cette banque, de la rendre solvable et d'éviter une crise de confiance. Donc, il n'y a rien à redire à ce qui a été fait. Mais il faut s'interroger sur le coût, à deux points de vue.

La SADC, par exemple, a versé 200 millions de dollars de provision pour pertes sur prêts prévues. Ayant récemment parcouru le rapport annuel de la banque, je m'aperçois que cette estimation est excessivement généreuse, et que les résultats des prêts ont été meilleurs que prévus. J'imagine là encore qu'on ne peut pas critiquer ceux qui ont pris cette décision en toute conscience à l'époque. Le vérificateur général a toutefois critiqué le fait que ces 200 millions de dollars ont été versés à une banque étrangère et sont revenus à cette banque après avoir bouclé une boucle de façon à éviter à la société mère, la Banque Hongkong, de s'acquitter de ses obligations fiscales. Je pense que la question demeure: Est-il normal qu'une société d'État encourage l'évitement fiscal?

La deuxième question, c'est que lorsque l'affaire a été soumise à la Chambre des communes, on ne nous a jamais demandé, et j'imagine qu'il n'y avait aucune raison de le faire, d'approuver la vente ou la transaction. Un projet de loi visant à retirer certains pouvoirs aux actionnaires a été présenté à la Chambre. Mais on ne nous a absolument pas parlé de la possibilité de verser cet argent à une banque étrangère. Là encore, avant que quelqu'un ne me dise que l'argent de la SADC n'est pas l'argent des contribuables, je précise que je sais très bien que la SADC est financée par des prélèvements sur les institutions. Néanmoins, depuis très longtemps, elle dispose d'une ligne de crédit auprès du Fonds du revenu consolidé, c'est donc l'argent du contribuable. Et c'est doublement l'argent du contribuable si l'on ne paie pas d'impôt sur cet argent.

Nous en arrivons ensuite au coût. Le prix de vente de la Banque de Colombie-Britannique était de 60 millions de dollars. La veille du jour où ces 60 millions ont été payés, ou le jour même, la société mère a retiré 58 millions de dollars qu'elle avait en dépôt dans sa filiale. Cet argent pouvait être retiré, c'était une transaction indépendante de toute autre. Mais pour quelqu'un de naïf comme moi, si l'on verse d'un côté 60 millions et qu'on en sort 58 de l'autre, cela veut dire que la Banque a été achetée pour moins de 2 millions de dollars. Ce que je veux dire par conséquent, c'est que c'est une excellente chose qu'on ait sauvé cette banque, mais est-ce que cela n'a pas coûté trop cher? N'aurait-on pas pu le faire à moindre coût?

[Texte]

Mr. Mackenzie: Miss Nicholson, I will answer the first part of the question, and then ask Mr. Hammond, who was party to these transactions—not party to, but was around at the time—to answer the second part of your question.

There is one general point that is very important to make, and I have said it various times, it is my experience that dealing with a situation at the time is always very difficult. There is a tremendous difference between real time and hindsight time.

The experience of other banks out west, the experience of what happens when a bank goes into liquidation is that the losses are horrendous. The losses are horrendous compared to what they could be if you had an orderly transfer into the hands of competent bankers who are continuing business and banking relationships. It is my judgment, based on our examinations last year and my knowledge of the situation at the time, that one could anticipate losses on a liquidation basis of \$400 million, \$500 million, or \$600 million. In fact, the losses turned out to be, on a managed basis on that same portfolio—well, you read the annual report of the Bank of British Columbia—\$50 million. I have forgotten what the figure is, but very substantial. . . . The difference between loss management and loss control, where you have competent bankers in an ongoing continual relationship situation, compared to liquidation is as much and dramatic as those figures would indicate. That was a judgment that CDIC people made and the government people made at the time of these negotiations. I just wanted to say that as a “general standing back from it all”.

You may have noted that under the regime with the Osler problem in Toronto it was structured in such a way to allow for an orderly transfer of assets. In fact, in my judgment the losses there were very substantially mitigated by the fact another broker was going to take over large segments of that business on an ongoing basis.

Now, as to some of the other details that you raised, I would ask Mr. Hammond to comment.

• 1735

Mr. Hammond: I was the acting Inspector General of Banks for two months, and it just happened to be at the time of the problem relating to the Bank of British Columbia. Indeed, there was a team of people from Ottawa out there who did negotiate that deal. There were people from CDIC. I was there. Other people from the office of the Inspector General of Banks were there. People from the Department of Finance were there.

We certainly think it was a good arrangement. I know the chairman of the CDIC has explained the deal at some length to the Public Accounts Committee, explained why it was structured the way it was, why the money was paid to the parent. With hindsight, I think all of us who participated in that transaction think the arrangement was

[Traduction]

M. Mackenzie: Madame Nicholson, je vais répondre à la première partie de votre question et demander à M. Hammond, qui a participé à ces transactions—vu plutôt qu’il n’y a pas participé mais qui était présent—de répondre à la deuxième partie.

Il y a une remarque générale très importante à faire, et je l’ai déjà dit à de nombreuses reprises, c’est qu’il est très difficile de faire face à ce genre de situation sur le moment. À posteriori, les choses sont très différentes.

Quand aux banques de l’ouest du pays, je dirais que les pertes sont épouvantables lorsqu’une banque est mise en liquidation. Elles sont épouvantables comparées à ce qu’elles seraient si ses affaires étaient transférées à des banquiers compétents qui poursuivraient leurs activités et leurs transactions bancaires. D’après ce que je sais de la situation à l’époque, on pouvait s’attendre à des pertes de l’ordre de 400, 500 ou 600 millions de dollars en cas de liquidation. En fait, ces pertes, grâce à une gestion judicieuse de ce même portefeuille, et vous avez lu vous-même le rapport de la Banque de Colombie-Britannique, se sont élevées à 50 millions de dollars seulement. J’ai oublié le chiffre en question, mais c’est très important. . . . La différence entre une gestion contrôlée des pertes par des banquiers compétents qui maintiennent le cap et une liquidation est aussi importante que la différence entre ces chiffres. C’est ce que les responsables de la SADC et les autorités du gouvernement ont estimé lors de ces négociations. C’est tout ce que je voulais signaler après avoir du recul par rapport à tout cela.

Vous avez peut-être constaté que pour l’affaire Osler à Toronto, on a structuré les opérations de façon à effectuer calmement le transfert des actifs. En fait, je crois que les pertes ont été considérablement atténuées grâce au fait qu’un autre courtier allait assurer la continuité d’une grande partie de cette entreprise.

Je vais maintenant demander à M. Hammond de vous répondre plus en détail.

M. Hammond: J’ai été inspecteur général des banques intérimaire pendant deux mois, précisément à l’époque du problème de la Banque de Colombie-Britannique. En fait, on a envoyé toute une équipe d’Ottawa négocier cette affaire. Il y avait des gens de la SADC. J’étais là. Il y avait aussi d’autres représentants du Bureau de l’inspecteur général des banques et des gens du ministère des Finances.

Nous sommes convaincus du bien-fondé de cette transaction. Je sais que le président de la SADC a expliqué longuement cette transaction au Comité des comptes publics, qu’il a expliqué comment elle avait été structurée et pourquoi on avait versé l’argent à la société mère. Avec le recul, je crois que tous ceux d’entre nous

[Text]

desirable and was in the interests of the financial system in Canada.

Mr. Mackenzie has talked about the loan provisions, and of course the game is not over until everybody has paid those loans. Until that is all done you are never sure what the actual loan losses will be. So we will have to wait to see. Certainly there has been some improvement, but I think the economy in British Columbia has improved too since the time when that transaction took place.

On the last comment, about the \$60 million, indeed the parent did have \$60 million on deposit with its Canadian subsidiary, but that was a deposit; it was withdrawable at any time. There were no terms nor conditions attached to that deposit. Indeed, in determining the capital requirements that bank had to meet, the deposit was taken into account. In other words, it was treated as a liability. It was not regarded as capital.

So they did withdraw that money. It was a deposit such as any person on the street could have. It was a liability of the bank. They did withdraw that money, and they subsequently invested \$60 million in the bank in the form of common share capital that was non-withdrawable.

There is a distinction between a deposit and capital. It was not just that they did not put any money in. There is a fundamental difference between a deposit and an investment in a bank in the form of common shares.

Mr. de Jong: I too was in attendance at the Public Accounts Committee when we dealt with this in quite a bit of detail, and I agree with Mr. Hammond: I think most probably the deal, the way it got structured, was in the best interests of the financial institutions in this country. But the question that got raised with the committee and that I do not think there was an adequate answer for is whether it was also in the best interests of the public and the taxpayers of this country. Everybody sitting around the table helping to construct the deal certainly was concerned about what was in the best interests of the financial institutions. But there were no folk around the table—and I have always maintained the Deputy Minister of Finance should have been wearing that hat—concerned about whether this—

The Chairman: I thought he was worrying about keeping employment up in a dozen or so branches that would have folded.

Mr. de Jong: The way the deal was structured, as it was described, I cannot come to any conclusion other than that it was a case of tax avoidance. Had the Minister's own recommendations in his white paper about avoidance rules been in effect, I would tend to think there was some clear action that should have been taken. The way it got structured was that the \$200 million that was meant to go to the Hongkong Bank of Canada in B.C. was structured so as to go via the Hongkong and Shanghai Banking Corporation in Barbadoes, or whatever, offshore. The intention was for it to go to the Hongkong Bank; and it

[Translation]

qui ont participé à cette transaction sont convaincus qu'elle était souhaitable et dans l'intérêt du régime financier du Canada.

M. Mackenzie a parlé des provisions pour prêts, et naturellement l'affaire n'est pas terminée tant que tout le monde n'aura pas remboursé ces prêts. Tant que cela n'est pas fait, on n'est jamais certain du montant exact des pertes sur prêts. Il faut donc attendre. La situation s'est effectivement améliorée, mais je pense que la conjoncture en Colombie-Britannique s'est aussi améliorée depuis cette transaction.

À propos des 60 millions de dollars, la société mère avait effectivement ces 60 millions de dollars en dépôt auprès de sa filiale canadienne, mais c'était un dépôt; il pouvait être retiré à tout instant. Il n'était limité par aucune condition. En fait, on a tenu compte de ce dépôt pour déterminer les besoins en capitaux de la banque. Autrement dit, on la considérait comme un passif, et non comme un capital.

Ils ont donc retiré cet argent. C'était un dépôt comme n'importe quel dépôt effectué par n'importe qui. C'était un passif pour la banque. Ils ont retiré cet argent, et ensuite ils ont investi 60 millions de dollars dans cette banque sous forme d'actions ordinaires bloquées.

Il y a une différence entre un dépôt et un placement. Ce n'est pas qu'ils n'ont pas versé d'argent à cette banque. Il y a une différence fondamentale entre un dépôt et un investissement sous forme d'actions ordinaires.

M. de Jong: J'étais moi aussi présent au Comité des comptes publics quand nous avons approfondi la question, et je suis d'accord avec M. Hammond: je pense que cette entente a été structurée dans l'intérêt des institutions financières du Canada. Mais il y a une question qui a été posée au comité et à laquelle on n'a pas répondu de façon satisfaisante à mon avis, c'est de savoir si c'était aussi dans l'intérêt du public et des contribuables. Tous ceux qui ont participé à l'élaboration de cette entente se souciaient incontestablement des intérêts des institutions financières. Mais il n'y avait personne autour de cette table, et j'ai toujours estimé que le sous-ministre des Finances aurait dû le faire, pour savoir si. . .

Le président: Je croyais qu'il se préoccupait de préserver les emplois du personnel d'une douzaine de succursales qui auraient fermé leurs portes.

M. de Jong: Quand je vois la façon dont l'entente a été structurée, je ne peux m'empêcher de considérer qu'il s'agit d'un cas d'évitement fiscal. Si les recommandations du ministre qui figurent dans ce Livre blanc avaient été en vigueur, je pense qu'on aurait été obligé de prendre des mesures très claires. La transaction a été organisée de façon à ce que les 200 millions de dollars qui devaient aller à la *Hongkong Bank of Canada* en Colombie-Britannique ont été d'abord versés à la *Hongkong and Shanghai Banking Corporation* aux Barbades, ou je ne sais où, à l'étranger. Cet argent devait être versé à la

[Texte]

seems to me any time you set up a transaction where the original purpose of that transaction is clouded for tax-avoidance purposes, then you have tax avoidance.

Mr. Hammond: As the testimony given by Messrs. McKinlay and Hart before the Public Accounts Committee indicated, I think the deal was structured to pay the money to the parent because it was the parent that was providing the guarantee and that was the essence of the transaction.

• 1740

The Chairman: The next meeting is not with these chaps; it is Tuesday with them, but Monday, March 7, Bill C-109 has been referred to the committee. It is the borrowing authority bill, in Room 253-D, with the Hon. Michael Wilson.

This meeting stands adjourned.

[Traduction]

Hongkong Bank; je crois que quand on dévie de l'intention initiale d'une transaction pour contourner le fisc, il y a évitement fiscal.

M. Hammond: Comme l'ont dit messieurs McKinlay et Hart dans leur témoignage devant le Comité des comptes publics, cette entente a été structurée de façon à verser l'argent à la société mère parce que c'était elle qui en assurait la garantie, et que c'était cela l'essentiel de la transaction.

Le président: Notre prochaine réunion n'est pas avec ces messieurs; nous les rencontrons mardi, mais le lundi 7 mars, le comité étudiera le projet de loi C-109. C'est le projet de loi portant pouvoir d'emprunt que nous examinerons dans la pièce 253-D avec l'honorable Michael Wilson.

La séance est levée.



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WITNESSES

From the Office of the Superintendent of Financial Institutions:

Michael A. Mackenzie, Superintendent;
R.M. Hammond, Deputy Superintendent, Insurance
and Pensions Sector;
D. MacPherson, Deputy Superintendent, Deposit
Taking Institutions Sector;
Ursula Menke, Director, Legal Sector.

TÉMOINS

Du Bureau du surintendant des institutions financières:

Michael A. Mackenzie, surintendant;
R.M. Hammond, surintendant adjoint, Secteur de
l'assurance et des régimes de pensions;
D. MacPherson, surintendant adjoint, Secteur des
institutions à dépôt;
Ursula Menke, directeur, Secteur juridique.

HOUSE OF COMMONS

Issue No. 141

Monday, March 7, 1988

Chairman: Don Blenkarn

CHAMBRE DES COMMUNES

Fascicule n° 141

Le lundi 7 mars 1988

Président: Don Blenkarn

*Minutes of Proceedings and Evidence of the
Standing Committee on*

Finance and Economic Affairs

*Procès-verbaux et témoignages du Comité
permanent des*

Finances et des affaires économiques

RESPECTING:

Bill C-109, An Act to provide borrowing authority

INCLUDING:

The Fourteenth Report to the House

CONCERNANT:

Projet de loi C-109, Loi portant pouvoir d'emprunt

Y COMPRIS:

Le Quatorzième Rapport à la Chambre

APPEARING:

The Honourable Michael Wilson,
Minister of Finance

WITNESS:

(See back cover)

COMPARAÎT:

L'honorable Michael Wilson,
Ministre des Finances

TÉMOIN:

(Voir à l'endos)

Second Session of the Thirty-third Parliament,
1986-87-88

Deuxième session de la trente-troisième législature,
1986-1987-1988

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Clerk of the Committee

COMITÉ PERMANENT DES FINANCES ET DES
AFFAIRES ÉCONOMIQUES

Président: Don Blenkarn

Vice-président: Robert E.J. Layton

Membres

Bill Attewell
Michael Cassidy
Mary Collins
Simon de Jong
Murray Dorin
Raymond Garneau
Paul McCrossan
George Minaker
Aideen Nicholson
Marcel R. Tremblay
Norman Warner

(Quorum 7)

Le greffier du Comité
Marie Carrière

ORDERS OF REFERENCE

Extract from the Votes and Proceedings of the House of Commons of Tuesday, March 1, 1988:

Debate was resumed on the motion of Mr. Wilson (Etobicoke Centre), seconded by Mr. Mayer,—That Bill C-109, An Act to provide borrowing authority, be now read a second time and referred to a Legislative Committee.

And the question being put on the motion, pursuant to Order made earlier this day, a recorded division was deferred until 3.00 o'clock p.m., this day.

Accordingly, at 3.00 o'clock p.m., the House proceeded to the taking of the deferred division on the motion of Mr. Wilson (Etobicoke Centre), seconded by Mr. Mayer,—That Bill C-109, An Act to provide borrowing authority, be now read a second time and referred to a Legislative Committee.

And the question being put on the motion, it was agreed to on the following division:—

Accordingly, the Bill was read the second time and referred to a Legislative Committee.

Extract from the Votes and Proceedings of the House of Commons of Wednesday, March 2, 1988:

By unanimous consent, it was ordered,—That the reference to a Legislative Committee of Bill C-109, An Act to provide borrowing authority, be amended so that the Bill stands referred to the Standing Committee on Finance and Economic Affairs.

ATTEST

ROBERT MARLEAU

Clerk of the House of Commons

ORDRES DE RENVOI

Extrait des Procès-verbaux de la Chambre des communes du mardi 1^{er} mars 1988:

Le débat reprend sur la motion de M. Wilson (Etobicoke-Centre), appuyé par M. Mayer,—Que le projet de loi C-109, Loi portant pouvoir d'emprunt, soit maintenant lu une deuxième fois et déferé à un Comité législatif.

Cette motion est mise aux voix et, conformément à l'ordre adopté plus tôt aujourd'hui, le vote par appel nominal est différé à quinze heures aujourd'hui.

En conséquence, à quinze heures, la Chambre aborde le vote par appel nominal différé sur la motion de M. Wilson (Etobicoke-Centre), appuyé par M. Mayer,—Que le projet de loi C-109, Loi portant pouvoir d'emprunt, soit maintenant lu une deuxième fois et déferé à un Comité législatif.

Cette motion, mise aux voix, est agréée par le vote suivant:—

En conséquence, ce projet de loi est lu une deuxième fois et déferé à un Comité législatif.

Extrait des Procès-verbaux de la Chambre des communes du mercredi 2 mars 1988:

Du consentement unanime, il est ordonné,—Qu'on modifie l'ordre de renvoi à un Comité législatif du projet de loi C-109, Loi portant pouvoir d'emprunt, de façon à ce que le projet de loi soit déferé au Comité permanent des finances et des affaires économiques.

ATTESTÉ

Le Greffier de la Chambre des communes

ROBERT MARLEAU

REPORT TO THE HOUSE

Tuesday, March 8, 1988

The Standing Committee on Finance and Economic Affairs has the honour to present its

FOURTEENTH REPORT

In accordance with its Orders of Reference of Tuesday, March 1, 1988 and of Wednesday, March 2, 1988, your Committee has considered Bill C-109, An Act to provide borrowing authority, and has agreed to report it without amendment.

A copy of the Minutes of Proceedings and Evidence relating to this Bill (*Issue No. 141, which includes this report*) is tabled.

Respectfully submitted,

DON BLENKARN,
Chairman.

RAPPORT À LA CHAMBRE

Le mardi 8 mars 1988

Le Comité permanent des finances et des affaires économiques a l'honneur de présenter son

QUATORZIÈME RAPPORT

Conformément à ses Ordres de renvoi du mardi 1^{er} mars 1988 et du mercredi 2 mars 1988, votre Comité a étudié le projet de loi C-109, Loi portant pouvoir d'emprunt et a convenu d'en faire rapport sans modification.

Un exemplaire des Procès-verbaux et témoignages relatifs à ce projet de loi (*fascicule n^o 141, qui comprend le rapport*) est déposé.

Respectueusement soumis,

Le président,
DON BLENKARN.

MINUTES OF PROCEEDINGS

MONDAY, MARCH 7, 1988

(213)

[Text]

The Standing Committee on Finance and Economic Affairs met at 8:02 o'clock p.m. this day, in Room 112-N, (Centre Block), the Chairman, Don Blenkarn, presiding.

Members of the Committee present: Don Blenkarn, Michael Cassidy, Simon de Jong, Murray Dorin, W. Paul McCrossan, Aileen Nicholson and Norman Warner.

Acting Members present: Ross Belsher for Robert Layton; Jim Jepson for Bill Attewell and Gordon Taylor for Mary Collins.

In attendance: From the Committee's Research Staff: H. Bert Waslander, Research Director. *From the Research Branch of the Library of Parliament:* Richard Domingue, Research Officer.

Appearing: The Honourable Michael Wilson, Minister of Finance.

Witness: From the Department of Finance: David Dodge, Senior Assistant Deputy Minister, Tax Policy and Legislation Branch.

The Orders of Reference dated Tuesday, March 1, 1988 and Wednesday, March 2, 1988 being read as follows:

It was ordered,—That, Bill C-109, An Act to provide borrowing authority be referred to the Standing Committee on Finance and Economic Affairs.

Clause 1 was allowed to stand.

On Clause 2

The Minister made an opening statement and with the other witness answered questions.

Clause 2 carried.

Clause 3 carried.

Clause 4 carried.

Clause 1 carried.

The Title carried.

Bill C-109 carried, on division.

It was ordered,—That the Chairman report Bill C-109 to the House.

At 9:58 o'clock p.m., the Committee adjourned to the call of the Chair.

Marie Carrière
Clerk of the Committee

PROCÈS-VERBAL

LE LUNDI 7 MARS 1988

(213)

[Traduction]

Le Comité permanent des finances et des affaires économiques se réunit aujourd'hui à 20 h 02, dans la pièce 112-N de l'Édifice du centre, sous la présidence de Don Blenkarn, (président).

Membres du Comité présents: Don Blenkarn, Michael Cassidy, Simon de Jong, Murray Dorin, W. Paul McCrossan, Aileen Nicholson et Norman Warner.

Membres suppléants présents: Ross Belsher remplace Robert Layton; Jim Jepson remplace Bill Attewell; Gordon Taylor remplace Mary Collins.

Aussi présents: Du personnel de recherche du Comité: H. Bert Waslander, directeur de la recherche. *Du Service de recherche de la Bibliothèque du Parlement:* Richard Domingue, attaché de recherche.

Comparait: L'honorable Michael Wilson, ministre des Finances.

Témoin: Du ministère des Finances: David Dodge, sous-ministre adjoint principal, Direction de la politique et de la législation de l'impôt.

Lecture des ordres de renvoi des mardi 1^{er} mars et mercredi 2 mars 1988 est faite en ces termes:

Il est ordonné,—Que le projet de loi C-109, Loi portant pouvoir d'emprunt, soit déferé au Comité permanent des finances et des affaires économiques.

L'article 1 est réservé.

Article 2

Le Ministre fait une déclaration préliminaire, puis lui-même et l'autre témoin répondent aux questions.

L'article 2 est adopté.

L'article 3 est adopté.

L'article 4 est adopté.

L'article 1 est adopté.

Le titre est adopté.

Le projet de loi C-109 est adopté avec voix dissidente.

Il est ordonné,—Que le président fasse rapport, à la Chambre, du projet de loi C-109.

À 21 h 58, le Comité s'ajourne jusqu'à nouvelle convocation du président.

Le greffier du Comité
Marie Carrière

EVIDENCE

[Recorded by Electronic Apparatus]

[Texte]

Monday, March 7, 1988

• 2000

The Chairman: This meeting is called to consider Bill C-109, an act to provide borrowing authority. Appearing as our witnesses tonight are the Hon. Michael Wilson, Minister of Finance, together with Mr. Dodge and Mr. Aquilina. The issue is Bill C-109.

Mr. Minister, do you have any opening remarks you want to make with respect to the bill?

Hon. Michael Wilson (Minister of Finance): I have a brief statement, which I will table. If I could get your permission that it would be printed as tabled, Mr. Chairman, then I can make a few general comments.

The Chairman: I think that is the easiest way to handle it.

Mr. Wilson (Etobicoke Centre): This relates to Bill C-109 to provide us with the authority to implement a regular debt program to meet our financial requirements. It is a straightforward bill. It flows directly from the budget of February 10. We are looking for a borrowing authority of \$25.3 billion. This is made up of \$22.3 billion of financial requirements with a \$3 billion non-lapsing reserve to cover contingencies. I will not go through an explanation of the bill. It is a standard one, a very short bill.

What I might say is that the statement tabled reviews the borrowing authority for the current year and how it has been used. You will see there is a fairly substantial increase in the savings bond issue of last year—\$9 billion—and that has been offset by a reduction in the share we have used treasury bills for. In addition there has been \$2.7 billion of requirement for foreign exchange transactions.

Let me just say in conclusion, Mr. Chairman, that this bill is an important bill. It does put the government in a position to maintain an orderly ongoing debt program, and quick passage will reduce uncertainty in capital markets. The changes we announced in the budgetary process in 1985 have been followed here. We have brought in a budget. We have the main estimates. We have brought in the borrowing bill consistent with both the estimates and the budget. This is consistent with the approach accepted in Parliament and recommended by the Standing Committee on Procedure and Organization. So I would ask committee members for their co-operation in dealing with the bill as quickly as they could in order to move this process along.

TÉMOIGNAGES

[Enregistrement électronique]

[Traduction]

Le lundi 7 mars 1988

Le président: Nous examinons ce soir le projet de loi C-109, loi portant pouvoir d'emprunt. A cette occasion, nous entendrons le ministre des Finances, M. Michael Wilson, qui est accompagné de M. Dodge et de M. Aquilina.

Monsieur le ministre, avez-vous des observations à faire au sujet de ce projet de loi avant que nous n'entamions la discussion?

L'honorable Michael Wilson (ministre des Finances): J'ai une brève déclaration que je déposerai et, avec votre permission, monsieur le président, je demanderai à ce qu'elle soit annexée aux délibérations de ce jour, pour que je puisse faire quelques observations d'ordre général.

Le président: Je crois que c'est effectivement la meilleure façon de procéder.

M. Wilson (Etobicoke-Centre): Le projet de loi C-109 autorise le gouvernement à emprunter de l'argent pour qu'il puisse respecter ses engagements financiers. Ce projet de loi est très simple et découle directement du budget du 10 février dernier. Nous demandons une avance de 25,3 milliards de dollars dont 22,3 milliards représentent nos engagements financiers et 3 milliards de dollars une réserve ne tombant pas en annulation en fin d'exercice, pour couvrir toute éventualité. Je ne me propose pas d'expliquer ce projet de loi; il est standard et très court.

Le document que j'ai déposé ce soir passe en revue le pouvoir d'emprunt exercé cette année et montre comment il a été utilisé. Vous constaterez que le nombre d'obligations d'épargne émises l'année dernière, soit 9 milliards de dollars, a énormément augmenté ce qui nous a permis de réduire d'autant nos émissions de bons du Trésor. De surcroît, l'achat de devises nous a coûté 2,7 milliards de dollars.

En conclusion, permettez-moi de vous dire, monsieur le président, que ce projet de loi est important puisqu'il permet au gouvernement d'emprunter de l'argent régulièrement, sans à-coup, et son adoption dans les plus brefs délais lèverait l'incertitude qui plane sur les marchés financiers. Les modifications que nous avions annoncées dans le budget de 1985 ont été suivies. Nous avons présenté un budget. Nous avons préparé des prévisions budgétaires. Nous avons déposé un projet de loi portant pouvoir d'emprunt conforme aux prévisions budgétaires et au budget et qui s'inspire de la position adoptée par le Parlement et recommandée par le Comité permanent du programme et de la procédure. Je demanderais donc aux députés membres du comité d'adopter ce projet de loi dans les meilleurs délais pour que les choses puissent suivre leur cours.

[Texte]

Those are all the comments I had on the borrowing authority. Mr. Chairman, I do have some general comments on finance estimates. I could save those until you want to deal with that.

The Chairman: We are going to have a hearing next week on those. I think the Minister of State is going to be here.

Mr. Wilson, there been a great deal of speculation in the press with respect to interest rates. It has been suggested that our interest rates are 2% to 2.5% above the American rates. Our dollar has been rising rapidly. Part of the excuse given in the past to maintain a high interest differential with the United States has been the excuse that we needed a high interest rate in Canada to keep the dollar from going out at the bottom. It seems to be now going through the roof. Can you tell us why we now keep a high interest rate policy?

Mr. Wilson (Etobicoke Centre): Before answering the specific question, let me make a comment on the differential. In my judgment it is not totally appropriate to look simply at the differential between the two treasury bill rates. The U.S. dollar is a reserve currency. A number of countries purchase U.S. government treasury bills in order to hold them in their foreign exchange reserves. Therefore, the interest rates on U.S. treasury bills are abnormally low relative to the marketplace.

• 2005

As a general rule, in the Department of Finance—I believe this is the same with the Bank of Canada—we look more at the spreads between the 30- and 90-day commercial paper rates. At this point, those are about 1.75% and have been for some while now. Apart from the time in the first half of 1986 when the Canadian dollar was under some pressure, you will recall, the spreads normally range between 0.5% and 2.5%, with 1.5% being a normal midpoint. So we are just a shade above that midpoint at 1.75%.

Now, you asked why we have this spread on the higher end of the midpoint with the dollar being strong. I think the answer relates to the fact that we do have a strong economy. We have an economy that last year I believe was the strongest of the G-7 countries—the main industrialized countries.

There have been some potential problems showing up with regard to inflation, and the Governor of the Bank of Canada and I have both drawn attention to this. We believe it is important that we maintain vigilance on these particular pressures. It has to be done in the context of our overall economic policy, but I believe it is good preventive medicine for us to take this position now, and try to avoid the problems we have run into in previous years where inflation was allowed to get out of hand. It

[Traduction]

Voilà ce que je voulais dire à propos de ce pouvoir d'emprunt. J'aurais quelques observations d'ordre général à faire sur les prévisions budgétaires du ministère des Finances, monsieur le président, mais je pourrais les faire lorsque vous les examinerez.

Le président: Nous les examinerons la semaine prochaine et je crois que le Ministre d'État sera notre témoin.

Monsieur Wilson, la presse s'intéresse beaucoup aux taux d'intérêt à l'heure actuelle. Certains disent que ces taux sont supérieurs de 2 à 2,5 p. 100 aux taux d'intérêt américains. Notre dollar s'apprécie rapidement et on a toujours prétendu par le passé qu'il fallait conserver un certain écart entre les taux d'intérêt canadiens et américains pour empêcher l'affaiblissement du dollar. Or, le dollar semble maintenant crever tous les plafonds. Pourriez-vous nous dire pourquoi les taux d'intérêt demeurent élevés au Canada?

M. Wilson (Etobicoke-Centre): Avant de répondre à votre question, permettez-moi de faire une observation à propos de cet écart. À mon avis, il n'est pas bon de s'attarder uniquement sur l'écart qui existe entre les taux d'intérêt frappant les bons du Trésor. Le dollar américain est une monnaie de réserve. De nombreux pays détiennent des devises libellées en bons du trésor du gouvernement américain. C'est ce qui explique par conséquent, que les taux d'intérêt frappant les bons du trésor américains sont anormalement bas par rapport au marché.

En règle générale, au ministère des Finances—je crois que c'est le cas à la banque du Canada—nous préférons retenir l'écart qui existe entre les taux d'intérêt frappant les effets de commerce à 30 jours et à 90 jours. À l'heure actuelle, cet écart se situe aux alentours de 1,75 p. 100 et ce, depuis déjà un certain temps. Exception faite du premier semestre de l'année 1986, lorsque le dollar canadien a subi quelques pressions, si vous vous en souvenez bien, cet écart se situe normalement entre 0,5 p. 100 et 2,5 p. 100, 1,5 p. 100 étant la norme. Il est donc un peu plus élevé, à 1,75 p. 100.

Or vous m'avez demandé pourquoi cet écart est si élevé alors que le dollar canadien est ferme. À cela, je répondrai que notre économie est soutenue, puisqu'elle a connu le taux de croissance le plus élevé l'année dernière parmi les pays faisant partie du groupe des sept, des principaux pays industrialisés.

Cependant, l'inflation n'a toujours pas été jugulée et le gouverneur de la banque du Canada et moi-même avons insisté là-dessus. Nous estimons qu'il est important de nous montrer prudents. Nous devons agir dans le cas de notre politique globale, mais je crois qu'il est prudent d'adopter cette position pour l'instant et ainsi essayer d'éviter les problèmes que nous avons connus les années précédentes lorsque l'inflation a atteint des sommets vertigineux. L'inflation avait alors fait grimper les taux

[Text]

put very serious upward pressure on interest rates, which lasted at these high levels for far longer than any of us would have cared for at that time. The final result was the most serious recession we have had in Canada since the 1930s.

So we are watching this closely. That is the reason why interest rates are where they are and I am sure the Governor of the Bank of Canada would be agreeable to commenting further on this as it relates to monetary policy, if you so desired.

Mr. Taylor: Along with interest rates, Mr. Minister, can you anticipate any economic conditions that are going to suddenly increase these rates the way they went up in the early 1980s—1982 and 1983—to above 20%? I am wondering if there are economic conditions that might cause an increase in the interest rates.

Mr. Wilson (Etobicoke Centre): I do not see anything on the horizon, Mr. Taylor, to suggest that. If you go back to the 1981-82 period of high interest rates, that flowed out of a decade where we had quite severe and growing inflationary pressures, not just here but in other countries. I do not see those sorts of severe pressures on the horizon.

Having said that, I think it is important that we recognize if there is not vigilance here to try to avoid that problem, in time we could develop that type of scenario. We are trying to avoid that by the actions we are taking now, and I believe we can avoid it. Certainly there is no sign whatsoever of that on the horizon today.

• 2010

I might say, we are following this policy, recognizing that if inflationary pressures are allowed to get out of hand in say central Canada, central Ontario, because of the nature of the economic system in Canada it does not take long for those inflationary pressures to spread to other parts of the country. It would be far more difficult for the parts of the country outside of central Canada to withstand the pressure of those higher inflation rates. They have a much more lasting effect than anything we are looking at, knowing the interest rate levels today are just a shade over the midpoint of what we have seen in the past years.

Mr. Taylor: I understand the Governor of the Bank of Canada, Mr. Crow, feels it is going to be possible to get the inflation rate down to zero. Do you think it is a realistic objective at this time?

Mr. Wilson (Etobicoke Centre): I think Mr. Crow is making a statement related to very long-term objectives. I do not think he was considering something that would happen in the next year or two years. As an objective, we

[Translation]

d'intérêt qui sont demeurés élevés pendant beaucoup plus longtemps que nous l'aurions voulu. Et c'est ainsi que nous avons connu la récession la plus grave depuis les années 1930.

Nous surveillons donc la situation de très près. C'est la raison pour laquelle les taux d'intérêt demeurent au niveau où ils sont et je suis sûr que le gouverneur de la banque du Canada serait disposé à vous en parler dans le cadre de la politique monétaire qu'il poursuit, si tel était votre désir.

M. Taylor: Dans cette même veine, monsieur le ministre, prévoyez-vous quelques problèmes économiques quelconque qui auraient pour effet de faire grimper les taux d'intérêt au niveau que nous avons connu au début des années 1980—en 1982 en 1983—c'est-à-dire à plus de 20 p. 100? Je me demande si la conjoncture actuelle pourrait entraîner un relèvement important des taux d'intérêt.

M. Wilson (Etobicoke-Centre): Rien ne permet de penser que ce soit le cas, monsieur Taylor. Si l'on remonte à l'année 1981-1982, année où nous avons connu des taux d'intérêt élevés, nous venons de traverser une dizaine d'années au cours desquelles les pressions inflationnistes avaient été assez sévères et croissantes, non seulement ici au Canada mais à l'étranger. Or, je ne vois pas de pressions aussi graves poindre à l'horizon.

Cela dit, je crois qu'il est important de savoir que si nous ne nous montrons pas prudents, nous pourrions revivre ce même scénario. Nous essayons d'éviter que cette situation ne se reproduise en prenant des mesures dès maintenant et je crois que nous pouvons éviter tous ces problèmes. Je ne vois aucun indice pour l'instant qui me permettrait de penser que nous pourrions revivre cette même période troublante.

Je pourrais dire que nous suivons cette politique, sachant que si l'on ne contrôle pas les pressions inflationnistes dans le Canada central, par exemple, dans l'Ontario central, vu la nature de l'économie canadienne, ces pressions inflationnistes ne tarderont pas à s'étendre au reste du pays. Il serait beaucoup plus difficile pour les régions à l'extérieur du Canada central de résister à une hausse de l'inflation. L'inflation a un effet beaucoup plus durable que tout ce que nous avons considéré jusqu'ici, étant donné que les taux d'intérêt actuels sont légèrement supérieurs à la moyenne des dernières années.

M. Taylor: Je crois savoir que le Gouverneur de la Banque du Canada, M. Crow, croit qu'on pourra réduire le taux d'inflation à zéro. Pensez-vous que c'est un objectif réaliste à l'heure actuelle?

M. Wilson (Etobicoke-Centre): Je pense que M. Crow parle de l'objectif à long terme. À mon avis, cela ne se produira pas dans un an ou deux. On a vu d'autres pays, le Japon et l'Allemagne, où le taux d'inflation a été réduit

[Texte]

have seen in other countries, in Japan and Germany, in the past year or so, inflation getting down to zero or 1% levels. I think the intent of the government is to see inflation reduced. I do not put any targets on this at this point. I think we have to do this in the context of overall economic policy. I believe it is important for people making decisions to have the sense we are trying to control inflation.

I do not have to stress this to you, we do know inflation is far more damaging to people on fixed incomes and people who are retired. I think we want to give those people the peace of mind that we are trying to keep inflation to as low levels as we can, and that is the context within which this policy is being followed. It has to be done in the overall context of economic policy, and this covers a range of things. If you look at the bottom line of the economic policy Canada has been following, you have a very nice balance here of a growth rate. As one of the leaders of the industrialized countries, Canada has been number one of the G-7 countries since 1984. At the same time, we have been number one in employment growth. Those are two key bottom-line measures of economic performance, and I think our broad economic policy has to be judged in that overall sense.

Mr. Taylor: Going directly to the bill, do you anticipate this entire sum of \$25 billion is going to be borrowed for use before March 31, or have you provided a little bit to play with, as the Liberals used to do?

Mr. Wilson (Etobicoke Centre): As I said in my opening remarks, there is a \$3 billion contingency over and above what we calculate our financial requirement would be. To put that into context, in this current year we have needed \$2.7 billion to finance the increase in our foreign exchange reserves. So while there is a contingency there, we feel it is realistic within the overall environment within which we are operating.

• 2015

The Chairman: Perhaps we could keep the questions, for the moment, on the question of interest rates.

Mr. Jepson: Thank you, Mr. Wilson, for appearing tonight. The economy has performed extremely well, and I believe that to a large extent it is because of the fiscal policy you have displayed in the last three years in trying to deal with expenditures and reduce the deficit. I believe this has created a confidence within the investment circle. However, I do have a concern, as expressed earlier, that the high dollar could have a very adverse effect, particularly on our balance of trade. I think you have given figures before, and I would like to hear them again. Each 1¢ increase in the dollar translates into a possible loss in our trade values and trade figures.

Mr. Wilson (Etobicoke Centre): I cannot recall ever providing that type of figure. In the fiscal plan there is a sensitivity analysis on what a 100 basis point increase in interest rates would be or what one percentage point

[Traduction]

à zéro ou à 1 p. 100 au cours de l'année dernière. Le gouvernement veut réduire le taux de l'inflation. Je ne fixe pas d'objectif à ce stade-ci. Il faut le faire dans le contexte de la politique économique globale. Je crois que les décideurs économiques doivent savoir que nous nous efforçons de juguler l'inflation.

Inutile de vous signaler que l'inflation nuit beaucoup plus aux gens à revenu fixe et aux retraités. Nous voulons les assurer que nous essayons de réduire au minimum l'inflation et c'est dans ce contexte-là qu'on poursuit cette politique. Il faut le faire dans le contexte de la politique économique globale, ce qui comprend plusieurs choses. La politique économique que nous avons adoptée pour le Canada a eu pour effet un très bon taux de croissance. Le Canada se place premier parmi les pays industrialisés membres du G-7 depuis 1984. En même temps, notre taux de croissance a été le meilleur dans le secteur de l'emploi. Voilà deux indices économiques clés et je pense qu'il faut juger l'ensemble de notre politique économique dans ce contexte-là.

M. Taylor: Je pars directement du projet de loi: prévoyez-vous que la totalité des 25 milliards de dollars sera empruntée pour être utilisée avant le 31 mars ou vous êtes-vous laissés une certaine marge de manoeuvre, comme les Libéraux le faisaient?

M. Wilson (Etobicoke-Centre): Comme je l'ai dit au début, il y a une réserve de 3 milliards de dollars, en plus des besoins financiers établis. Pour mettre cela en contexte, au cours du présent exercice nous avons eu besoin de 2,7 milliards de dollars pour financer l'augmentation de nos réserves en devises étrangères. Donc même s'il y a une réserve, nous croyons que c'est réaliste dans la conjoncture actuelle.

Le président: Tenons-nous en aux taux d'intérêt, pour le moment.

M. Jepson: Merci d'être venu ce soir, monsieur Wilson. L'économie a réalisé une performance extrêmement bonne et je crois que c'est dû en grande partie à la politique fiscale que vous avez poursuivie au cours des trois dernières années pour réduire les dépenses et le déficit. Je crois que cela a donné confiance aux investisseurs. Mais, comme je l'ai déjà dit, je m'inquiète des répercussions de la hausse du dollar sur notre balance commerciale. Je pense que vous avez déjà donné des chiffres mais je voudrais les entendre de nouveau. Chaque cent d'augmentation peut se traduire par une perte de notre commerce extérieur.

M. Wilson (Etobicoke-Centre): Si je ne m'abuse, je n'ai jamais donné ces chiffres. Le plan fiscal prévoit l'incidence sur le déficit d'une augmentation de 1 p. 100 des taux d'intérêt ou du produit national brut. Mais pour

[Text]

change in the gross national product rate would be on the fiscal deficit. But as for what you have asked for, I think—and I am not an expert on it—it would be very difficult to be precise about change.

I will give you an example of what I mean. In this last quarter, the fourth quarter of 1987, we have had an increase in exports at an annual rate, I believe, of something like 25%. I do not have that in front of me.

Mr. Jepson: An increase of 25%?

Mr. Wilson (Etobicoke Centre): On an annual basis of exports it was 25%, at the same time as the Canadian dollar was rising. So people can make adjustments, and people do make adjustments.

Mr. Jepson: What I am saying is that I, for one, have some grave concerns that when we have the spread between U.S. and Canada in interest rates and a dollar that has increased roughly 5¢ to 6¢ in fairly recent time, if we do not come to grips with it, this can have a very negative effect on our exports. I am wondering if you share that concern and see a need to look at the interest rates and give it that attention immediately or in the very near future if, as in the current situation, the dollar continues to show strength.

Mr. Wilson (Etobicoke Centre): Let me confirm that figure. In the fourth quarter of 1987 our exports did grow at an annual rate of 25%. Getting back to your question, one of the key variables to the competitive position of an economy is the inflation rate. A change in the inflation rate usually means an ongoing impact on the competitive position of an economy. In other words, if the inflation rate goes up 4% in one year and 3% in another year, that is a total of 7%. Only when the inflation rate is negative do you knock off the change in the inflation rate. So it is important to keep in mind the impact of the rate of inflation.

Mr. Jepson: There has not been that much fluctuation in the inflation rate. It has been pretty constant.

Mr. Wilson (Etobicoke Centre): It has been, but it is plus 4% each year. My point is that if you do not reduce the inflation rate below zero the cost structure of the economy is there on a permanent basis. Interest rates and exchange rates can fluctuate. I think it is more important to make adjustments in the inflation rate and the exchange rate—the interest rate is temporary by nature—if you can, by doing that, avoid a permanent increase in the cost structure of the economy. That is what is behind the policy. I believe the short-term impact on the competitive position of seeing the dollar go up one, two or three cents can be less important to the competitive position of the economy than having a permanent increase because we have a jump in the inflation rate.

• 2020

Mr. Jepson: Banks are very quick to increase the interest rates when they see a serious fluctuation in the dollar, but they are not so quick to reduce them when they see an opposite reaction. I hear all the time that they

[Translation]

répondre à votre question, même si je ne suis pas expert en la matière, je crois qu'il serait très difficile de préciser.

Je vous donnerai un exemple. Au cours du dernier trimestre de 1987, soit le plus récent, les exportations canadiennes ont augmenté à un rythme annuel d'environ 25 p. 100, je crois. Je n'ai pas les chiffres devant moi.

M. Jepson: Une augmentation de 25 p. 100?

M. Wilson (Etobicoke-Centre): Sur une base annuelle, c'était 25 p. 100 en même temps que la valeur du dollar canadien montait. Donc les gens peuvent s'y adapter et c'est ce qu'ils font.

M. Jepson: Ce que je veux dire, c'est que pour ma part, je me préoccupe beaucoup de l'écart entre les taux d'intérêt aux États-Unis et au Canada et de l'augmentation récente d'environ de 5c. ou 6c. de la valeur de notre dollar. Si nous ne nous y attaquons pas, cela peut nuire beaucoup à nos exportations. Je me demande si vous partagez ce souci. Pensez-vous qu'il faut examiner les taux d'intérêt immédiatement ou dans un avenir très rapproché si la valeur du dollar continue à monter?

M. Wilson (Etobicoke-Centre): Permettez-moi de confirmer ce chiffre. Au quatrième trimestre de 1987, nos exportations ont augmenté à un taux annuel de 25 p. 100. Pour revenir à votre question, la compétitivité de l'économie dépend, entre autres, du taux de l'inflation. Si ce taux là change, cela a toujours un effet sur la compétitivité de l'économie, en général. Autrement dit, si les prix augmentent de 4 p. 100 une année et de 3 p. 100 l'année suivante, cela fait une hausse totale de 7 p. 100. Les prix ne baissent que si le taux d'inflation est inférieur à zéro. Donc il est important de tenir compte de l'effet du taux de l'inflation.

M. Jepson: Le taux de l'inflation n'a pas changé de beaucoup. Il est assez stable.

M. Wilson (Etobicoke-Centre): C'est vrai, il est un peu au-dessus de 4 p. 100 chaque année. Ce que je veux dire, c'est que si le taux d'inflation n'est pas négatif, les coûts continuent à monter en permanence. Les taux d'intérêt et les taux de change peuvent fluctuer. Mais je pense qu'il est plus important de procéder à des ajustements du taux d'inflation et du taux de change—le taux d'intérêt étant de toute façon quelque chose de temporaire—si cela vous permet de soulager l'économie du poids croissant qu'ils font peser sur elle. Voilà exactement ce qu'il y a derrière notre politique. Mais une reprise de notre dollar de 1c., 2c. ou 3c. nous affaiblit moins, face à nos concurrents, que ce fardeau croissant d'une inflation galopante.

M. Jepson: Les banques sont toujours promptes à relever les taux d'intérêt, lorsque le dollar vacille, mais elles sont beaucoup plus longues à la détente lorsqu'il s'agit de renverser la vapeur. J'entends en permanence les

[Texte]

bumped them up overnight at the slightest indication, but when the trend goes the other way they seem to be able to come up with a lot of good reasons for not following so quickly.

Mr. Wilson (Etobicoke Centre): Our response to that has been to introduce greater competition into the financial markets by bringing in more financial participants and giving them greater powers. That is the main thrust of the financial services reforms announced by Tom Hockin a little over a year ago. As that competition takes hold—it is showing up now—we are going to see the banks, trust companies and others changing their interest rates and being more sensitive to competition.

I do not want to, and I do not think you would want to, get to a point where we have the government dictating the level of interest rates. If we have a market that is very competitive, it is by far the better way of doing it. That is the policy this government has been following.

The Chairman: I know Mr. Belsher wants to get into a 15% investment tax on insurance companies. I was wondering if we could hit the question of interest rates temporarily and then go to that.

Mr. de Jong: I would like to ask the Minister some more questions, generally dealing with tax reform and the committee's report. When we are dealing with the question of interest rates, the concern you and the Bank of Canada have expressed is with inflation and it has to be part of the equation, but surely there are other parts to that equation and other factors that are also of concern. Levels of employment, employment opportunities in the various regions of this country, the effect a high interest rate has on the amount of accumulated obligations to the debt servicing to foreigners that we attract, the capital and the cost of servicing and the drag it would create on the Canadian economy are other factors at play. That is not to deny the importance inflation, but to stress to you, sir, that other factors are also as important.

It seems to us that your policy and the policy of the Bank of Canada is just to look at inflation. Do you not think that surely with the strength of the Canadian dollar right now and the spread between the American rate and the Canadian rate we could lower the interest rates by one or two points?

• 2025

Mr. Wilson (Etobicoke Centre): Well, Mr. de Jong, you say we just look at the inflation factor. You may not have

[Traduction]

gens se plaindre autour de moi de cette façon dont les banques réagissent du jour au lendemain à la moindre saute d'humeur du marché, mais lorsque la tendance se renverse elles ont des tas de bonnes raisons pour ne pas suivre le mouvement aussi rapidement.

M. Wilson (Etobicoke-Centre): Voilà précisément pourquoi nous avons décidé d'ouvrir le marché des institutions financières à la concurrence, en permettant au nombre des institutions de se multiplier et en permettant à leurs compétences de s'étendre. Voilà ce à quoi vise la réforme des institutions financières qui a été annoncée par Tom Hockin il y a un petit peu plus d'un an. Au fur et à mesure que la concurrence jouera—on commence à en sentir les effets dès maintenant—les banques, les sociétés de fiducie, et les autres institutions financières vont réviser leur taux d'intérêt.

Je ne voudrais pas, et je ne pense pas que vous le vouliez non plus, en arriver à un point où ce serait au gouvernement de fixer les taux d'intérêt. Je pense qu'il est préférable que ceux-ci soient fixés par les lois du jeu de la concurrence et du marché. En tous les cas c'est la politique que mon gouvernement a suivie jusqu'ici.

Le président: Je sais que M. Belsher voudrait poser des questions sur la taxe de 15 p. 100 appliquée aux revenus de placement des compagnies d'assurance. Nous pourrions peut-être terminer cette question des taux d'intérêt, rapidement, et ensuite nous passerons à cet autre sujet.

M. de Jong: J'ai quelques questions à poser au ministre sur la réforme fiscale de façon générale, et sur la réaction du gouvernement au rapport du Comité. Mais puisque nous en sommes à la question des taux d'intérêt, je rappellerais que la Banque du Canada et vous-mêmes semblez vous être surtout préoccupés du taux d'inflation, et il est certain que c'est un des paramètres à ne pas perdre de vue, mais je suppose que ce n'est pas le seul. Je pense en particulier au marché de l'emploi, au chômage, à la création d'emploi dans les différentes régions du pays, au fait que des taux d'intérêt très élevés accroissent le fardeau de la dette lorsque des étrangers investissent chez nous, et que tout cela a des répercussions sur la structure du capital et sur les investissements, tout en affaiblissant l'économie canadienne. Voilà donc d'autres facteurs qui entrent en ligne de compte, cela sans évidemment nier l'importance de l'inflation, mais sans oublier non plus ces autres variables et éléments.

J'ai l'impression que votre politique et celle de la Banque du Canada consistent à donner la primeur à l'inflation. Avec maintenant un dollar canadien qui a repris, et étant donné par ailleurs le différentiel entre le taux américain et le taux canadien, ne pensez-vous pas que nous puissions abaisser nos taux d'intérêt de un ou deux points?

M. Wilson (Etobicoke-Centre): Monsieur de Jong, à vous entendre il n'y a que l'inflation qui puisse compter

[Text]

been in the room when I made the comment that the inflation rate is only one of the elements we look at in designing economic policy. It is a key variable, but there are others as well.

I have pointed out that since we have been in office, Canada has had the number one job-creation rate of the major industrialized countries. You yourself referred to job opportunities in different parts of the country. I will not take you through every province, but in Newfoundland we have dropped from an unemployment rate of 23.8% to 17.4%; New Brunswick, 16.2% to 12.5%; Ontario, 9.4% to 5.3%; Alberta, 12.1% to 8.8%; British Columbia 15.1% to 10.1%. Looking at one of the bottom lines of economic policy, we have done pretty well here.

Now I am not going to sit back, and I am sure you would not want me to, and say these results are satisfactory as a final objectives for those parts of the country that have unemployment rates in the 12%, 14%, in the case of Newfoundland, 17% rate. We are committed to getting those lower, and that is another part of economic policy, fiscal policy designed to develop programs that address economic problems in the regions.

What we have done in ACOA, western diversification, and the Atlantic enterprise, which is dedicating purchasing to parts of the Atlantic provinces, are things that are part of decisions in a variety of departments. We are very sensitive to the impact of these policies on regions of high unemployment.

We do not just look at the inflation rate. I know that you and your colleagues in the New Democrat Party have always been concerned about the high levels of interest rates that we reached in the early 1980s.

Mr. de Jong: Yes, absolutely.

Mr. Wilson (Etobicoke Centre): Absolutely, and the reason for that was because inflation, as one part of economic policy, got out of hand, so we are trying to avoid that problem recurring, but at the same time we have had the fastest growing economy and the best job-creation rate of the major industrialized countries.

Mr. de Jong: I suppose we can get into a discussion as to what were the causes of the high inflation of the 1970s. Some analysts point out to the war in Vietnam, and President Johnson wanting guns and butter all at the same time. From there on our problem has been there, and the solution to it was the high interest rates, which had a

[Translation]

pour nous. Vous n'étiez pas là lorsque j'ai justement expliqué que ce taux d'inflation n'était qu'un des éléments dont nous tenons compte au moment où nous mettons en forme notre politique économique. C'est une variable-clé sans doute, mais il y en a d'autres effectivement.

J'ai à ce sujet fait remarquer que depuis l'arrivée de notre gouvernement au pouvoir, le Canada est celui des grands pays industrialisés qui a connu le taux de création d'emplois le meilleur. Vous avez parlé tout à l'heure de création d'emplois dans les régions, je ne vais pas ici faire le tour des provinces, mais rappeler simplement qu'à Terre-Neuve le taux de chômage a chuté de 23.8 p. 100 à 17.4 p. 100, de 16.2 p. 100 à 12.5 p. 100 au Nouveau-Brunswick, de 9.4 p. 100 à 5.3 p. 100 en Ontario, de 12.1 p. 100 à 8.8 p. 100 en Alberta, et de 15.1 p. 100 à 10.1 p. 100 en Colombie-Britannique. Si nous nous en tenons ici à l'un des grands principes de toute politique économique, je crois que nous nous en tirons très bien.

Cela ne veut pas dire que je vais maintenant me croiser les bras, ça n'est pas non plus ce que vous attendez de moi, en prétendant que ces résultats sont pleinement satisfaisants, et que nous pourrions effectivement nous accommoder de taux de chômage de 12 ou 14 p. 100, comme c'est le cas dans certaines provinces, ou de 17 p. 100 à Terre-Neuve. Nous avons promis de continuer à lutter contre le chômage, cela continue à faire partie de notre politique économique et budgétaire, et cela notamment grâce à des programmes conçus en fonction de la réalité économique de chaque région.

Et ce que nous avons fait avec l'APA, avec le Bureau de diversification de l'économie de l'Ouest, avec le programme entreprise atlantique, qui doit permettre de réserver certains marchés d'État aux régions de l'Atlantique, fait partie d'un processus de prise de décision qui concerne divers ministères à la fois. Nous suivons de très près les résultats que donnent ces diverses politiques dans les régions où le taux de chômage est élevé.

Tout cela pour vous dire qu'il n'y a pas pour nous que le taux d'inflation qui compte. Je sais que vous et vos collègues, au Nouveau parti démocrate, avez toujours été très préoccupés par cette escalade des taux d'intérêt au début des années 80.

M. de Jong: Absolument.

M. Wilson (Etobicoke-Centre): Effectivement, et une des raisons en était précisément l'inflation galopante, ce que nous voudrions éviter de voir se reproduire, mais en même temps nous avons eu la croissance économique la plus rapide et le meilleur taux de création d'emplois des grands pays industrialisés.

M. de Jong: On pourrait effectivement discuter des raisons de ce taux d'inflation phénoménal des années 70. Certains analystes parlent du Vietnam, et de ce que le président Johnson voulait à la fois des canons et du beurre. De là venaient tous nos maux, et la solution était de laisser croître les taux d'intérêt, avec les répercussions

[Texte]

tremendously hard social impact on just millions of people in the western industrialized world.

In Canada the effect was particularly dramatic with our high unemployment rate. We are finally beginning to recover from that. While your government can take some credit for that, certainly we started out with an extremely high level of unemployment, and we all welcome the fact that we are beginning to reduce that now in the last number of years. But certainly the casualties are still out there, all those people who in the end had to suffer in the battle for wrestling inflation to the ground—the poor, the unemployed. And coupled with that are government deficits and the tightening up of social programs across this country. We have always felt it is a case of the victims being blamed.

• 2030

Our concern still is that we have an inflation rate that is high. We still have an unemployment rate that is unacceptable, particularly in quite a few regions of this country. Certainly we are not the only ones calling for lower interest rates. The Royal Bank of Canada, for God's sake, is asking for lower interest rates. Premier Bourassa is calling for lower interest rates, suggesting the economic conditions are such that we should be able to afford dropping our rates by one or two points.

Mr. Wilson (Etobicoke Centre): The way you pose the question suggests that the government is fostering an interest rate policy deliberately to increase unemployment. The motives of this government are absolutely clear and beyond reproach. We have done everything we can in the broad context of the economic policy we followed to encourage job creation. We may use a fundamentally different approach from the New Democratic Party's. We try to do this in a way that motivates the private sector to create those jobs. But I think the results speak for themselves. We have had the best job-creation rate of any government over an extended period of time. Last year had the largest number of jobs ever created in a single year by a government.

So I think you have to step behind the simplistic interpretation that is implied by your question and look at the reasons why. I think I have set out pretty clearly the reasons why we are following this. But let me take you back to the early part of your question. You said the inflation that led to the high interest rates in 1981-82 were started by President Johnston and the war in Vietnam. Well, the war in Vietnam was shut down, I believe, in 1973. So we had another eight years of disregard of the inflationary pressures that were put in train by those earlier decisions, and they culminated in the disastrous recession we had in 1982.

[Traduction]

extrêmement dures que cela a pu avoir sur le plan social pour des millions d'habitants de ces pays industrialisés en Occident.

Les répercussions ont été particulièrement dramatiques au Canada, avec le taux de chômage que vous savez. Nous commençons à nous remettre de ce choc. Il est vrai que votre gouvernement peut d'une certaine manière mettre cette amélioration à son crédit, il est vrai que le taux de chômage dont il avait hérité était très élevé, et nous sommes ravis de constater que, depuis quelques années, il est en régression. Mais au passage nous y avons laissé des plumes, je veux parler de tous ceux qui finalement ont fait les frais de cette lutte sans merci contre l'inflation... les pauvres, les chômeurs. À cela s'ajoute la politique de réduction du déficit budgétaire, les coupures imposées à l'enveloppe sociale, etc. Dans ce cas précis nous avons eu très nettement l'impression que l'on accusait une fois de plus ceux qui étaient déjà des victimes.

Il n'en reste pas moins que pour nous le taux d'inflation reste élevé, et que dans de nombreuses régions du pays le taux de chômage est absolument inacceptable. Or nous ne sommes pas les seuls à demander que l'on fasse baisser les taux d'intérêt. La Banque Royale du Canada elle-même le demande. M. Bourassa également, en expliquant que la situation économique est telle que nous devrions pouvoir laisser chuter ces taux d'intérêt de un ou deux points.

M. Wilson (Etobicoke-Centre): La façon dont vous posez votre question pourrait laisser croire que notre gouvernement se sert de la question des taux d'intérêt pour, délibérément, aggraver le chômage. Or les intentions de ce gouvernement sont absolument claires et absolument irréprochables. Une fois les grandes lignes de notre politique économique fixées, nous avons fait tout ce qui était en notre pouvoir pour stimuler la création d'emplois. Notre conception est peut-être radicalement différente de celle du Nouveau parti démocratique. C'est vrai, nous cherchons à motiver l'entreprise et le secteur privé. Mais je crois que les résultats parlent d'eux-mêmes. C'est-à-dire que nous pouvons mettre à notre actif le taux de création d'emplois le meilleur qu'ait pu mettre à son actif n'importe quel gouvernement depuis très longtemps. Aucun gouvernement n'a jamais en un an créé autant d'emplois que nous l'avons fait l'an dernier.

Je crois donc qu'il faut essayer de dépasser ces interprétations simplistes que sous-entend votre question et se tourner vers les raisons de notre politique économique. Je crois que je les ai exposées très clairement. Mais permettez-moi de revenir à la première partie de votre question. Vous dites que l'inflation qui est à l'origine des taux d'intérêt si élevés de l'année 1981-1982 remonte à l'ère Johnston et à la guerre du Vietnam. N'oubliez tout de même pas que cette guerre s'est terminée, si je ne me trompe, en 1973. Cela veut dire qu'il s'est ensuite écoulé huit ans pendant lesquels on a absolument ignoré cette tendance inflationniste qui

[Text]

I agree, high interest rates, when they get to the 15%-to-20%-plus levels we saw in 1981-82, can have a very serious social impact. But I think the fact that we have seen the numbers of those living below the poverty line decrease in our term of office, for the first time since 1981, I believe, demonstrates that we are moving in the right direction. We have a way to go, sure. There are still too many people living below the poverty line. But let us look at the bottom-line results. Things are happening in a very positive way.

We have also been able to do these things and bring in some very positive initiatives in social policy: the national child care strategy that Jake Epp announced last year, the extension of the spouse's allowance in September 1985, the refundable sales tax credit, which we brought in in the 1986 budget and increased with tax reform, the prepayment of the child tax credit, the increase in the the supplement to the child tax credit—

• 2035

Mr. de Jong: Mr. Minister, we are not on the hustings yet. We are doing a dry run, I understand that.

Mr. Wilson (Etobicoke Centre): I was drawing to your attention the fact that we have had a very balanced policy.

The Chairman: But we are on interest rates.

Mr. Wilson (Etobicoke Centre): My friend here drew the link between—

The Chairman: He cannot help that.

Mr. Wilson (Etobicoke Centre): —economic policy and social policy. I have to reinforce that link—

Mr. Belsher: You have to excuse him.

Mr. Wilson (Etobicoke Centre): —and the broadening of the definition of disability, the increased tax assistance for the disabled, changes to medical expenses, charitable donations, increased veterans benefits.

The Chairman: Before you know it, you are going to have him voting for us. I am going to Mr. McCrossan—

Mr. Wilson (Etobicoke Centre): Mr. McCrossan's name reminded me that the other major social policy initiative was the tremendous improvement in pension policy,

[Translation]

remonte sans doute à des décisions prises précédemment, mais qui n'en a pas moins abouti à cette récession désastreuse de 1982.

Je suis d'accord, lorsque les taux d'intérêt sont trop élevés, lorsqu'ils se situent dans une fourchette de 15 à 20 p. 100 ou plus, comme en 1981-1982, les répercussions sur le plan social peuvent être dramatiques. Mais le fait que le nombre de ceux qui vivent au-dessous du seuil de pauvreté ait régressé depuis que nous sommes au gouvernement, et pour la première fois depuis 1981, prouve, je pense, que nous ne faisons pas fausse route. Il reste encore du chemin à faire, c'est certain. Il y a encore trop de gens qui vivent au-dessous du seuil de pauvreté. Mais voyons quels sont les résultats essentiels qui ont pu être obtenus. Je dois dire que cela évolue de façon très positive.

Parallèlement nous avons réussi à prendre un certain nombre de mesures également très positives dans le domaine de la politique sociale: je pense à notre stratégie nationale en matière de garderie annoncée par Jake Epp l'an dernier, je pense aux mesures prises en faveur de l'allocation du conjoint en septembre 1985, au crédit remboursable sur la taxe de vente, mesure proposée en même temps que le budget de 1986 et amélioré dans le cadre de la réforme fiscale, je pense également au paiement anticipé du crédit d'impôt pour enfant, à l'augmentation du supplément du crédit d'impôt pour enfant. . .

M. de Jong: Monsieur le ministre, nous ne sommes pas encore en campagne électorale. Nous nous exerçons, je sais, je sais.

M. Wilson (Etobicoke-Centre): J'attirais votre attention sur le fait que nous avons adopté une politique très équilibrée.

Le président: Nous sommes sur les taux d'intérêt.

M. Wilson (Etobicoke-Centre): C'est que mon ami faisait un lien entre. . .

Le président: C'est plus fort que lui.

M. Wilson (Etobicoke-Centre): . . . la politique économique et la politique sociale. Je me dois de souligner le lien qui existe. . .

M. Belsher: Il faut l'excuser.

M. Wilson (Etobicoke-Centre): . . . et l'élargissement de la définition d'invalidité, l'augmentation des crédits d'impôt à l'intention des handicapés, les modifications à la déduction pour frais médicaux, les dons de charité, et l'augmentation des prestations à l'intention des anciens combattants.

Le président: Avant longtemps, il votera pour nous. Je vais maintenant céder la parole à M. McCrossan. . .

M. Wilson (Etobicoke-Centre): En parlant de M. McCrossan, vous me rappelez l'autre grande initiative en matière de politique sociale, les améliorations énormes

[Texte]

Canada Pension Plan, pension benefit standards, registered retirement income funds, RRSPs, and I am missing one. Will you help me, Mr. McCrossan?

The Chairman: Registered retirement investment funds.

Mr. Jepson: Are you not glad you asked that question?

Mr. McCrossan: That was the first question he was ready for. He had two pages to read there.

Can I come back to the foreign exchange reserves in the contingency fund, and how it started to infiltrate policy? The foreign exchange reserves position was published last Friday, and has been increasing very sharply. As you have indicated, we went through nearly \$3 billion of supplementary borrowing authority by increasing our foreign exchange reserves.

Money traders tell me that as a result of our interest rate policy they are in a position to hedge their currency and interest rate risks and speculate virtually without risk against the Canadian dollar, and that accounts in large part for the rapid run-up in foreign exchange reserves. I wonder if you have had a look at this, with the very dramatic increases in foreign exchange reserves occurring in the last two and a half months, and whether you agree that given the position of the bank vis-à-vis the currency we are being forced to eat a fair amount of our discretionary borrowing by increasing the reserves, which is really the result of successful speculation, against the governor's interest rate and currency and dollar policy.

Mr. Wilson (Etobicoke Centre): Mr. McCrossan, I do not think anybody speculates without risk. Those in the marketplace who feel they are speculating without risk have in the past I think found it is wise from time to time to look over their shoulders.

The Chairman: Are you prepared to burn them?

Mr. Wilson (Etobicoke Centre): I will not answer that question, Mr. Chairman. It is totally inappropriate for me to respond to that.

The point I am making is there has been a run-up in reserves. Part of that is also a function of the concern for inflation. As a currency moves up in value, that also adds some deflationary tendency to the performance and the economy.

I think that the interest rate policy and the exchange rate policy are consistent. It has resulted in an increase in foreign exchange reserves, but I am not uncomfortable with an increased level of foreign exchange reserves. I think that when we came into office, my reserves were in the \$3.5 to \$4 billion dollar range. In December 1984 they were \$3.2 billion. At the end of 1985, they were \$3.3 billion. I think for the size of economy Canada had those reserves probably were on the low size.

[Traduction]

que nous avons apportées à la politique en matière de pension, le régime de pension du Canada, les normes visant les prestations, les fonds enregistrés de revenus de retraite, les REER, et j'en oublie un. Voulez-vous m'aider monsieur McCrossan?

Le président: Les fonds enregistrés d'investissement à la retraite.

M. Jepson: Êtes-vous content d'avoir posé cette question?

M. McCrossan: C'était la première question qu'il attendait. Il avait une réponse de deux pages à nous lire.

J'aimerais maintenant revenir aux réserves de change du crédit pour éventualités et de son incidence sur la politique. Vendredi dernier on annonçait le montant des réserves de change et nous avons été à même de constater une augmentation très marquée. Comme vous l'avez dit, nous avons utilisé presque 3 milliards de dollars en crédits supplémentaires en augmentant notre réserve de change.

Les cambistes me disent que grâce à notre politique sur les taux d'intérêt, ils sont en mesure de se protéger contre les risques de fluctuation des devises et l'augmentation des taux d'intérêt et de spéculer presque sans risque contre le dollar canadien, ce qui explique, en grande partie, l'augmentation rapide de nos réserves de change. Avez-vous examiner la situation vu l'augmentation très marquée des réserves de change depuis deux mois et demi et convenez-vous qu'à cause de la position sur le dollar de la banque du Canada, nous nous voyons obligés d'utiliser une bonne partie de nos emprunts discrétionnaires afin d'augmenter la réserve suite finalement à des spéculations heureuses contre les taux d'intérêt du gouverneur et la politique de change.

M. Wilson (Etobicoke-Centre): Monsieur McCrossan, je ne pense vraiment pas que l'on puisse spéculer sans risque. Ceux qui ont pu le faire par le passé seraient bien avisés je pense de ménager leurs arrières.

Le président: Êtes-vous prêt à les échauder?

M. Wilson (Etobicoke-Centre): Je ne répondrai pas à cette question, monsieur le président. Il ne convient pas du tout que j'y réponde.

J'essayais d'expliquer que nous avons augmenté les réserves. Et c'est en partie à cause de nos inquiétudes au sujet de l'inflation. Lorsqu'une devise gagne en valeur, il s'ensuit une tendance déflationniste dans la performance de l'économie.

J'estime que notre politique en matière de taux d'intérêt va de pair avec notre politique sur les taux de change. Il est vrai que les réserves de change ont augmenté, mais je ne m'en inquiète pas. Je pense que lorsque nous avons été élus, les réserves étaient de 3,5 à 4 milliards de dollars. Au mois de décembre 1984 elles étaient de 3,2 milliards de dollars. A la fin de 1985, elles étaient de 3,3 milliards de dollars. Vu la taille de l'économie canadienne, je pense que ces réserves étaient probablement un peu basses.

[Text]

Mr. McCrossan: They are now up around \$11 billion?

Mr. Wilson (Etobicoke Centre): They are at \$10.5 billion.

Mr. McCrossan: How fast are they increasing? Do we have a monthly briefing of the figures?

• 2040

Mr. Wilson (Etobicoke Centre): Let me give you some indications here. At the end of January last year, these are in round numbers, they were 6.1; at the end of April they were 6.2; at the end of July they were 6.4; at the end of October they were 7.9; now they said they are just under 10.5 billion.

Mr. McCrossan: So what that shows, even if you do not accept my thesis that there is a perfect hedge on the currency market, right now our reserves are increasing at a \$1 billion per month.

Now, in your borrowing authority here you have provision for a \$3 billion contingency fund against an increase in reserves and that suggests that we could be through that in fairly short order if our reserves continue to build up this quickly, as they have been building up in recent months.

What happens when let us say we look at our reserves hitting the \$13.5 billion or \$14 billion mark, if this tremendous build-up in Canadian currency or attractiveness of Canadian currency continues because of our interest rate policy? Do we then throw in the towel? Or do we come back to Parliament for more supplementary borrowing authority?

Mr. Wilson (Etobicoke Centre): First of all, I think the strength in the Canadian dollar is not simply related to the interest rate policy. There are other factors as well. There has been a significant inflow of investment into Canada which is related to other factors besides an interest rate policy.

Mr. McCrossan: I understand that, but when a currency is strengthening and you can get 260-odd basis points to boot, that is a pretty good bet.

Mr. Wilson (Etobicoke Centre): I just make the point again that I think the interest rate differential between Treasury Bills is not the best example of the interest rate differential between the two countries. Commercial paper rates have a differential of about 1.75%. The differential in the bank prime rates between the two countries is 1.25%, I believe. So there is a range of interest rate spreads here. The long term interest rates are about 1%. So we have a range of spreads here between the two countries.

Mr. McCrossan: What you are saying though is that the private sector, if you will, the free enterprise system is saying that an appropriate spread ranges in the long term from 1% to the short term of 1.75%. But in the

[Translation]

M. McCrossan: Elles sont maintenant d'environ 11 milliards de dollars?

M. Wilson (Etobicoke-Centre): Elles sont de 10,5 milliards de dollars.

M. McCrossan: A quel rythme augmentent-elles? Vous donne-t-on un bilan mensuel?

M. Wilson (Etobicoke-Centre): Je vais vous donner quelques chiffres. À la fin du mois de janvier de l'an dernier, les réserves en chiffres ronds, étaient de 6,1; à la fin d'avril elles étaient de 6,2; à la fin de juillet, elles étaient de 6,4; et à la fin d'octobre, elles étaient de 7,9; on me dit qu'actuellement elles sont à un peu moins de 10,5 milliards.

M. McCrossan: Cela révèle, même si vous n'acceptez pas mon hypothèse que c'est la façon parfaite de se protéger sur le marché des changes. À l'heure actuelle, nos réserves augmentent au rythme d'un milliard de dollars par mois.

Or dans votre demande d'un pouvoir d'emprunt ici, vous prévoyez trois milliards de dollars d'éventualités pour l'augmentation des réserves, ce qui me porte à croire que cette somme sera épuisée assez rapidement si nous continuons à accumuler les réserves aussi rapidement que nous l'avons fait ces derniers mois.

Que ferons-nous lorsque nos réserves atteindront, disons 13,5 ou 14 milliards de dollars à cause justement de l'attrait du dollar canadien à cause de notre politique en matière de taux d'intérêt? Abandonnerons-nous? Ou reviendrons-nous au parlement pour demander un autre pouvoir d'emprunt?

M. Wilson (Etobicoke-Centre): Tout d'abord, la force du dollar canadien ne découle pas uniquement de notre politique sur les taux d'intérêt. D'autres facteurs interviennent aussi. Il y a eu une augmentation considérable des investissements au Canada grâce à d'autres facteurs que notre politique sur les taux d'intérêt.

M. McCrossan: Je le sais, mais lorsqu'une devise prend de la valeur et qu'en plus vous pouvez obtenir quelque 260 points de base, c'est une assez bonne affaire.

M. Wilson (Etobicoke-Centre): Je tiens à souligner encore une fois que, selon moi, la différence de taux d'intérêt entre les bons du trésor des deux pays n'est pas le meilleur exemple de la différence entre les taux d'intérêt des deux pays. Les billets de trésorerie affichent une différence d'environ 1,75 p. 100. Il y a une différence dans le taux préférentiel des deux pays de 1,25 p. 100, je pense. Il existe donc divers écarts dans les taux d'intérêt. Les taux d'intérêt à long terme sont d'environ 1 p. 100.

M. McCrossan: En fait vous voulez dire que le secteur privé, le régime de libre-entreprise croit que l'écart idéal serait, à long terme, de 1 p. 100, et à court terme de 1,75 p. 100. Par contre, dans le secteur public, qui relève de

[Texte]

government area, where we have it under our jurisdiction, if you will, we are maintaining an extra 100 basis points spread.

Mr. Wilson (Etobicoke Centre): Can I interrupt you there? The Canadian treasury bill rate is closely related to the 30-day and 90-day commercial paper rates. Let me give you these numbers: as of last Wednesday, the treasury bill rate in Canada was 8.32%, the 30-day commercial paper rate was 8.50%, the 90-day commercial paper rate was 8.55%. So they are all within one-quarter of 1% of each other.

In the United States, the treasury bill rate was 5.75%, the 30-day commercial paper rate was 6.67%, and the 90-day commercial paper rate was 6.76%. The point that I think cannot be ignored is that because the U.S. dollar is a reserve currency a lot of countries will hold treasury bills simply to hold in their reserves. Therefore, the treasury bill rate in the United States is unrealistically low compared with the commercial rates, and that comment would hold true whether it is the United States or whether it is Canada or other countries.

We feel that a far more appropriate measure of the interest rate differential in that maturity range is the commercial paper rate, because that is a true market rate.

• 2045

Mr. McCrossan: In your budget you indicate that we expect to move into a primary surplus in the coming fiscal year, for the first time in 15 years. If we are running the accounts of Canada essentially at a break-even position with the exception of debt service, then it would seem that one of the ways of actually controlling the deficit is reducing interest rates or having a policy to reduce interest rates. Do we have any idea as to what a 1% reduction in interest rates would do to reduce the deficit? Because we have a very high proportion of our debt in short-term debt instruments.

Mr. Wilson (Etobicoke Centre): One hundred basis point or 1% lower interest rates in year one result in a deficit reduction of \$1.4 billion. These are on page 82 of the fiscal plan. That grows over time to a fourth year of \$3.2 billion. So there is no question that if you take a very isolated view as to what a drop in interest rates will do, then yes, it does have a favourable effect on our deficit or financial requirements. But if you do not address the inflation problem and it gets out of hand, then you have a far more long-term and ongoing problem, as we found in the early 1980s.

Mr. McCrossan: I am completely with you there. My question is if you have \$1.4-billion lower cash requirements, does that not in itself lower inflationary pressures?

[Traduction]

notre compétence, nous maintenons un écart supplémentaire de 100 points de base.

M. Wilson (Etobicoke-Centre): Permettez-moi de vous interrompre? Les taux des bons du trésor canadien suivent de très près ceux des billets de trésorerie de 30 et 90 jours. Permettez-moi de vous donner les chiffres: Mercredi dernier, les bons du trésor au Canada étaient à 8,32 p. 100, et les billets de trésorerie de 30 jours à 8,5 p. 100 alors que ceux de 90 jours offraient 8,55 p. 100. Tous ces taux sont à un quart de 1 p. 100 les uns des autres.

Aux États-Unis, les bons du trésor offraient 5,75 p. 100, les billets de trésorerie de 30 jours, 6,67 p. 100 et les billets de trésorerie de 90 jours offraient 6,76 p. 100. Il ne faut pas oublier non plus que parce que le dollar américain est une devise de réserve, un grand nombre de pays ont des bons du trésor américains tout simplement pour maintenir leurs réserves. Par conséquent, le taux des bons du trésor américains, comparés au taux des billets de trésorerie est beaucoup plus bas qu'il ne devrait l'être et je dirais la même chose en parlant des États-Unis, du Canada ou d'autres pays.

À notre avis, pour les effets à court terme, la meilleure façon de juger la différence dans les taux d'intérêt c'est de regarder les taux des billets de trésorerie qui représentent le taux réel du marché.

M. McCrossan: Selon votre budget nous devrions pour la prochaine année financière connaître un excédent primaire, la première fois depuis 15 ans. Si notre objectif et l'équilibre du compte du Canada à l'exception du service de la dette, il me semble qu'un des moyens de contrôler le déficit est de réduire les taux d'intérêt ou d'instaurer une politique de réduction des taux d'intérêt. Avons-nous une idée de ce qu'une réduction d'un pour cent des taux d'intérêt aurait comme conséquence sur le déficit? Il ne faut pas oublier qu'une très grande partie de notre dette est financée à court terme.

M. Wilson (Etobicoke-Centre): Une réduction d'un pour cent des taux d'intérêt sur un an entraîne une réduction du déficit de 1,4 milliard de dollars. Vous trouverez ces chiffres à la page 82 du plan financier. À la fin de la quatrième année d'un tel régime la réduction est de 3,2 milliards de dollars. Il ne fait donc aucun doute que prise isolément l'incidence d'une réduction des taux d'intérêt sur notre déficit ou sur nos besoins financiers est positive. Mais si vous le faites aux dépens de l'inflation et que vous finissez par ne plus pouvoir la contrôler, vous vous retrouvez avec un problème permanent, à beaucoup plus long terme comme nous avons pu le constater au début des années 80.

M. McCrossan: Je vous suis tout à fait. Cependant, si vos besoins financiers sont réduits de 1,4 milliard de dollars, est-ce qu'en soi cela ne réduit pas les pressions inflationnistes?

[Text]

Mr. Wilson (Etobicoke Centre): If investors feel that a government is not paying due regard to inflationary pressures, then they will demand higher interest rates. One illustration of the fact that investors like what we are doing about interest-rate policy is that the spread on long-term rates is below 1%. So they have confidence in our long-term policies, and if we are able to get our inflation rate lower then, as I have said earlier, I am sure that would be reflected in lower interest rates.

Miss Nicholson: Mr. Minister, when your Parliamentary Secretary introduced this bill it was before the estimates had been tabled, and naturally we wanted to see the estimates first. But in your statement here you referred to \$3 billion in non-lapsing reserves. The estimates show a different figure. There is an amount for reserves of about \$2 billion, which is an unspecified amount. Can you relate that amount for us to your figure of \$3 billion? What is the connection?

Mr. Wilson (Etobicoke Centre): No. There is no connection between the two at all. They are apples and oranges. The \$2.5 billion—I think it is \$2.5 billion in the estimates—are reserves for statutory overruns, operating reserves, spending that might be announced this year that is not in the estimates today. The \$3-billion reserve we are asking for on the borrowing authority is for contingencies that are not provided for in the estimates and relate to, as an example, foreign exchange requirements. I said in my opening comments today that there is a \$2.7-billion need in this current fiscal year for foreign exchange requirements that obviously we could not anticipate at the time of the borrowing authority last year. But that is a standard request with the borrowing authority that has been going on for a number of years.

We used to draw that to the attention of the previous government, as well; but we think this is an appropriate size in relation to the various pressures that we might be exposed to under current circumstances.

• 2050

Miss Nicholson: Yes, that is a standard procedure for the borrowing authority. The inclusion of a large unspecified amount in the estimates of course is less usual. That was why I was hoping there might be a connection.

Mr. Wilson (Etobicoke Centre): That is normal.

The Chairman: It is not as high as it usually is.

Mr. Wilson (Etobicoke Centre): Yes, it is normally higher. We are running a very tight ship.

[Translation]

M. Wilson (Etobicoke-Centre): Qu'un gouvernement ne prête pas l'attention qu'elles méritent aux pressions inflationnistes et les investisseurs exigent une augmentation des taux d'intérêt. La preuve que les investisseurs aiment notre politique de taux d'intérêt est que la marge pour les taux à long terme est inférieure à 1 p.100. Ils font donc confiance à nos politiques à long terme et si nous parvenons à faire descendre encore plus notre taux d'inflation, comme je l'ai déjà dit tout à l'heure, je suis certain que cela se traduira dans une réduction des taux d'intérêt.

Mme Nicholson: Monsieur le ministre, lorsque votre secrétaire parlementaire a déposé ce projet de loi, c'était avant le dépôt des prévisions budgétaires et tout naturellement nous voulions commencer par voir ces prévisions. Dans votre déclaration, vous parlez de réserves renouvelables s'élevant à 3 milliards de dollars. Le chiffre des prévisions budgétaires est différent. Il est d'environ 2 milliards de dollars pour les réserves, c'est-à-dire un montant non spécifié. Pourriez-vous nous dire quel est le rapport avec le chiffre de 3 milliards de dollars? Quel est le lien?

M. Wilson (Etobicoke-Centre): Non. Il n'y a pas du tout de lien entre les deux. Ce sont des pommes et des oranges. Les 2,5 milliards de dollars—je crois que dans les prévisions c'est 2,5 milliards de dollars—sont des réserves pour les dépassements statutaires, des réserves d'exploitation pour des dépenses pouvant être annoncées cette année mais qui ne figurent pas dans les prévisions d'aujourd'hui. La réserve de 3 milliards de dollars que nous réclamons pour le pouvoir d'emprunt correspond à des contingences qui ne sont pas prévues dans les prévisions budgétaires et qui se rapportent, par exemple, au besoin de change étranger. Dans mes remarques préliminaires j'ai dit que pour l'année financière courante il nous fallait 2,7 milliards de dollars pour répondre au besoin de change étranger que de toute évidence il nous était impossible d'anticiper lors de la demande de pouvoir d'emprunt de l'année dernière. C'est une demande standard qui accompagne le besoin d'emprunt et ce depuis déjà un bon nombre d'années.

Nous avons aussi pour habitude d'attirer l'attention du gouvernement précédent sur cette question, mais nous pensons que c'est un montant approprié compte-tenu des diverses pressions auxquelles nous sommes susceptibles d'être soumis dans les circonstances actuelles.

Mme Nicholson: Oui, c'est une procédure standard pour le pouvoir d'emprunt. L'inclusion d'une large somme non spécifiée dans les prévisions, bien entendu, est moins habituelle. C'est la raison pour laquelle je voulais croire à l'existence d'un lien quelconque.

M. Wilson (Etobicoke-Centre): C'est normal.

Le président: Elle n'est pas aussi élevée que d'habitude.

M. Wilson (Etobicoke-Centre): Oui, généralement elle est plus élevée. Nous économisons au maximum.

[Texte]

Miss Nicholson: We will return to that. I will change to another question, on the swaps referred to in the Minister's statement. A press release was issued on them. Is this the beginning of a whole new approach to managing the payment on the national debt?

Mr. Wilson (Etobicoke Centre): It is really an addition to the various techniques we use to reduce the cost of carrying the national debt. As Mr. McCrossan pointed out, without the cost of carrying the national debt, we would have a surplus this year. So clearly the size of the borrowing cost, the interest on the public debt is a very significant amount. It is the largest single item of expenditure. We are exploring all opportunities, all possibilities, to reduce it. The swap arrangements that have been entered into and we are proposing to pursue are part of that overall attempt to reduce the cost of the debt.

Miss Nicholson: Is it true you are also looking at reducing the use of Canada Savings Bonds—you are finding these less than an efficient way to manage the national debt?

Mr. Wilson (Etobicoke Centre): We look at Canada Savings Bonds as being an important part of the whole debt-management strategy, Canada Savings Bonds being a principal item, but treasury bills and marketable bonds being the other two. We think it is important for us to offer securities that do have a ready market in Canada, and clearly Canada Savings Bonds have that appeal.

We review the various components each year. I cannot say there is any conscious effort to reduce Canada Savings Bonds as an element of our debt-management strategy. They will be with us for a long time to come.

Miss Nicholson: The other question I wanted to ask was about the increasing use of press releases by your department and the long delays in following up on these with legislation. Do you have any plan to change that?

Perhaps I could give one or two examples. For instance, on November 27, 1986 there was a press release concerning the avoidance of tax on dividend distributions by public companies. A draft of the proposed legislation was contained in the release, but the bill was not tabled for a further eight months, and by the time it was the rules had changed. That is one example. Another one is that there was a press release on June 2, 1987 saying the government would introduce a bill allowing interest to be deducted in certain cases at least until the end of 1988. But the proposed legislation has not come, and people are really wondering what this means, whether there will be legislation. Revenue Canada apparently has said it will

[Traduction]

Mme Nicholson: Nous y reviendrons. J'aimerais passer à une autre question, celle des swaps dont a parlé le ministre dans sa déclaration. Un communiqué de presse a été publié à leurs sujets. Est-ce le début d'une toute nouvelle méthode de gestion financière de la dette publique?

M. Wilson (Etobicoke-Centre): En réalité c'est une technique qui vient s'ajouter à toutes les autres que nous utilisons pour réduire le coût du financement de la dette publique. Comme M. McCrossan l'a signalé, sans le coût du financement de cette dette publique, cette année nous aurions un excédent. Il est clair que l'importance du coût de l'emprunt, le coût de l'intérêt de la dette publique représente une somme très importante. C'est le plus gros poste de dépense. Nous étudions toutes les possibilités, tous les moyens de le réduire. Les ententes de swaps que nous avons conclues et que nous nous proposons de poursuivre sont un des éléments de cette tentative générale de réduction du coût de la dette.

Mme Nicholson: Est-il vrai que vous étudiez également la possibilité de réduire le recours aux Obligations d'épargne du Canada—vous trouvez que c'est une méthode de gestion de la dette nationale loin d'être efficace?

M. Wilson (Etobicoke-Centre): Nous considérons les Obligations d'épargne du Canada comme un élément important de notre stratégie globale de gestion de la dette, les obligations d'épargne étant un des instruments principaux, mais les bons du Trésor et les obligations commercialisables étant les deux autres. Nous pensons important de pouvoir offrir des valeurs qui ont déjà un marché tout prêt au Canada et c'est à l'évidence le cas pour les obligations d'épargne.

Chaque année nous examinons les divers éléments. Je ne pourrais dire qu'un effort délibéré est fait pour réduire l'importance des obligations d'épargne comme élément de notre stratégie de gestion de la dette. Elles sont encore là pour longtemps.

Mme Nicholson: J'ai une autre question à vous poser. Elle concerne l'usage croissant par votre ministère de communiqué de presse et les longues périodes d'attente avant que ces propositions ne soient traduites dans des mesures législatives. Avez-vous l'intention de faire quelque chose à ce sujet?

Je pourrais peut-être vous donner un ou deux exemples. Par exemple, le 27 novembre 1986 un communiqué de presse concernant l'évasion fiscale sur des dividendes distribués par les compagnies publiques a été publié. Le communiqué contenait une proposition de mesures législatives mais le projet de loi n'a été déposé que huit mois plus tard et dans l'intérim les règles avaient changé. C'est un premier exemple. Un autre communiqué de presse en date du 2 juin 1987 a annoncé l'intention du gouvernement de déposer un projet de loi autorisant la déduction de l'intérêt dans certains cas au moins jusqu'à la fin de 1988. Nous attendons toujours ce projet de loi et les gens se demandent ce que cela veut dire, se demandent

[Text]

allow the deduction, but there is no legislative authority to do so.

• 2055

Mr. Wilson (Etobicoke Centre): Let us look at the reasons why we have made these announcements by press release. Normally they are made in a budget. We have been trying to compress the delays from the time of budget to legislation, but as you are very well aware, we have had a pretty heavy workload over the last few years. Therefore, it is difficult to get the legislation out in as timely a way as we would prefer, because of the pressure of drafting legislation.

The reason why we announce these changes by press release is that in some cases there may be some uncertainty. Probably a more predominant reason is that we are aware of people using certain techniques to avoid taxes. We feel that if we wait until a budget, we will have a lot of people making use of certain techniques to avoid taxes.

We also know that if we do not make those changes by press release in the lead-up to a budget, expectations build that there will be a change in a certain provision and therefore there is an increase loss of revenues for the public purse. That is why we do this.

Now, what will we do in the future? We hope that a number of the changes in tax reform are addressing some of the problems. The fact that tax rates are being reduced removes some of the incentive to avoid taxes. But we know that there will be ongoing pressures. People will be taking advantage of certain weaknesses, loopholes, whatever you want to call them, in the tax system. It is impossible to plug all of these in advance. That is why we propose this general anti-avoidance rule. We are hopeful that we will be able to reach some resolution of the concerns that have been expressed by the private sector on some of the wording here, so that we will have a measure in place that will allow Revenue Canada and Justice to tax some of these things. Therefore, there will be less need to make these tax changes by press release.

I should also say, Miss Nicholson, that we have I think been reasonably efficient in bringing in the tax bills following the budget, so that the uncertainty that you referred to certainly has been less than in previous years. Once we get tax reform behind us and the big drafting requirements that evolve from tax reform, we should be able to be... dare I say even more efficient, Mr. Dodge? I should say that it is a continuing effort on the part of the officials in the department to compress this timeframe as much as possible. Avoiding uncertainty is important for

[Translation]

si oui ou non une mesure législative sera déposée. Revenu Canada semble dire qu'il autorisera cette déduction, mais cette autorisation ne repose sur aucun texte législatif.

M. Wilson (Etobicoke-Centre): Examinons les raisons pour lesquelles nous avons fait ces annonces par voies de communiqué de presse. Normalement elles sont faites dans un budget. Nous avons essayé de réduire les délais entre le budget et l'adoption des lois habilitantes, mais comme vous le savez fort bien, la charge de travail depuis quelques années est très lourde. En conséquence, il est difficile de faire sortir les lois au moment où nous le préfererions à cause de la surcharge de travail des rédacteurs.

Si nous avons annoncé ces changements par voie de communiqué de presse, c'est pour dissiper des incertitudes dans certains cas. Raison probablement plus fondamentale: nous savons que des gens utilisent certaines techniques pour éviter l'impôt. Nous estimons qu'attendre un budget ne peut qu'encourager beaucoup de personnes à utiliser certaines techniques pour éviter l'impôt..

Nous savons également que si nous ne procédons pas à ces changements par voie de communiqué de presse dans la période précédant le dépôt d'un budget, les attentes concernant la modification de certaines dispositions s'amplifient entraînant une augmentation des pertes de recette pour le trésor public. C'est la raison pour laquelle nous agissons ainsi.

Maintenant, que ferons-nous demain? Nous espérons qu'un certain nombre des modifications contenues dans la réforme fiscale résolvent certains de ces problèmes. La réduction des taux d'imposition élimine certaines des incitations à l'évasion fiscale. Nous savons cependant que les pressions continueront à s'exercer. Les gens continueront à profiter de certaines faiblesses, de certaines lacunes, si vous voulez les appeler ainsi, dans le régime fiscal. Il est impossible de toutes les combler à l'avance. C'est la raison pour laquelle nous proposons cette règle générale contre l'évasion fiscale. Nous espérons pouvoir lever certaines des inquiétudes manifestées par le secteur privé au sujet de certains des termes utilisés, afin de posséder un instrument qui permettra à Revenu Canada et à la Justice d'imposer certaines de ces choses. En conséquence, nous aurons moins besoin de procéder par communiqué de presse pour annoncer ces changements fiscaux.

Je devrais également ajouter, mademoiselle Nicholson, que nous avons, je crois, déposé les projets de loi habilitants du budget dans des délais relativement raisonnables si bien que l'incertitude dont vous avez parlé tout à l'heure a certainement été moins grande qu'au cours des années précédentes. Une fois l'exercice de réforme fiscale terminé avec la rédaction de tous les textes que cela nécessite, nous devrions pouvoir... oserais-je dire encore plus efficace, monsieur Dodge? Les fonctionnaires du ministère s'efforcent en permanence de

[Texte]

the private sector, but it is also important for the government.

Miss Nicholson: In May 1985, Minister, you release draft legislation, which would have had the effect of the government's being obliged to either get its legislation passed—introduced and passed expeditiously—or else they would lose it. That sort of disappeared. Do you intend to move ahead with anything of that kind, or are you saving it until you are in opposition again?

Mr. Wilson (Etobicoke Centre): That might be a very long wait.

• 2100

Mr. Cassidy: Three to six months.

The Chairman: Michael, you and I have a wager.

Mr. Wilson (Etobicoke Centre): It is wonderful that it is that Michael, not this Michael.

The Chairman: That is right.

Mr. Wilson (Etobicoke Centre): That was a budget process discussion paper you were referring to. I cannot recall precisely what the disposition of that was with the parliamentary committee looking at it, but there were a number of elements in that proposal, if you recall, and that meant combining the budget legislation with the estimates with the borrowing authority and compressing it all.

I am not sure we have had as full a discussion as we should have of that particular proposal. I might also say I think it would be helpful to have some better definition of another element of that discussion paper, and that is the whole question of budget secrecy. There is still a tendency on the part of opposition parties to build this question of budget secrecy up to a greater sense than is necessary. We have tried to open up this process, and I think have done so in quite an effective way with the tax reform process. But I still get the sense that opposition members are looking for ways to embarrass the government in this whole question of budget secrecy, as opposed to trying to move the process away from that and open it up to a greater extent. I think opposition members—and I am not directing this entirely at you when I say this—if we want to open up the process, we also have to recognize that we should not be the first to jump on some way of trying to embarrass a government that is trying to open up the process.

Miss Nicholson: I have no more questions, Mr. Chairman, but may I just help the Minister's memory, which is showing rather a large gap in it, and that is this—

Mr. de Jong: Also very selective.

Miss Nicholson: —question of trying to improve or get something more modern than our traditional approach to budget secrecy was raised by Don MacDonald in one of

[Traduction]

comprimer au maximum le calendrier. Éviter les incertitudes est important pour le secteur privé mais également important pour le gouvernement.

Mme Nicholson: En mai 1985, monsieur le ministre, vous avez publié une proposition de loi qui aurait mis le gouvernement devant l'alternative suivante: ou bien il respectait certaines règles de diligence pour le dépôt et l'adoption de ces lois ou il y renonçait. Cette proposition a plus ou moins disparu. Avez-vous l'intention de representer quelque chose de ce genre ou attendez-vous d'être de retour dans l'opposition pour le faire?

M. Wilson (Etobicoke-Centre): Il faudra peut-être attendre très longtemps.

M. Cassidy: Trois à six mois.

Le président: Michael, je prends le pari.

M. Wilson (Etobicoke-Centre): Heureusement que c'est avec ce Michael-là.

Le président: Exact.

M. Wilson (Etobicoke-Centre): Vous parlez d'un document de réflexion sur le processus budgétaire. Je ne me souviens pas bien de ce que le comité parlementaire chargé de l'étudier en a fait, mais cette proposition contenait divers éléments, et visait à réunir la législation budgétaire, les prévisions budgétaires et le pouvoir d'emprunt et de comprimer tout cela.

Je ne suis pas certain que nous ayons approfondi comme il l'aurait fallu cette question. J'ajoute qu'il serait bon d'avoir une meilleure définition d'un autre élément de ce document, la question du secret budgétaire. Les partis d'opposition ont tendance à donner une importance exagérée à cette question. Nous avons essayé de pratiquer une politique d'ouverture, et je crois que nous l'avons fort bien fait avec la réforme fiscale. Mais je crois que les députés de l'opposition cherchent quand même à embarrasser le gouvernement sur toute cette question du secret budgétaire, au lieu de l'encourager dans cet effort d'ouverture. Je crois que les députés de l'opposition, et je ne vous vise pas particulièrement en disant cela, devraient admettre qu'il ne faut pas sauter sur la première occasion d'embarrasser le gouvernement si l'on veut l'encourager dans son effort d'ouverture.

Mme Nicholson: Je n'ai pas d'autres questions, monsieur le président, mais j'aimerais rafraîchir la mémoire du ministre qui présente une très sérieuse lacune, à propos de...

M. de Jong: Et une extrême sélectivité aussi.

Mme Nicholson: ... la question de l'amélioration de la modernisation de notre conception du secret budgétaire qui a été soulevée par Don MacDonald dans un de ses

[Text]

his budget papers, and it was not terribly well received by the Minister's party at the time.

The Chairman: I think Mr. Belsher had an urgent question. We are going to move along.

Mr. Belsher: Since we are dealing with the borrowing authority for this coming year, and last week you made an announcement concerning changes that would be done with income investment with regards to insurance companies, which will have an impact on future revenues to the treasury, could you review for us again what the impact would be for this coming year?

Mr. Wilson (Etobicoke Centre): There will be no impact in the coming year. I believe the revenues from that tax, as adjusted, will be the same for years one, two, and three, and not much different in year four, somewhat lower in year four. So in the first four years it is hardly any change at all because of the transitional adjustments we made and the fact that the tax itself, 15%, will be enacted up front instead of phased in over five years.

Mr. Cassidy: I welcome the Minister here, and I would like to say on the question on budget secrecy that I am very much open to innovations that would in fact create a more open process, contrary to what you may have suggested. I think those innovations, however, Mr. Minister, should include the Minister himself and the department. So without going into it at length, I think we should see you more often here than once every eight and a half months, which has been the rhythm since June, when I believe you were last before the committee.

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Mr. Wilson (Etobicoke Centre): It was probably the last time I was invited.

Mr. Cassidy: Well, I am not sure. We get the feeling you are rather reluctant to come before the committee.

Mr. Warner: He does not see you enough in the House.

Mr. Cassidy: As well, I think there is a real problem in terms of the Department of Finance—maybe it is you, Mr. Minister, but the department as well—which seems to want to ignore useful contributions made by the committee. That was certainly the feeling we had in the response you gave in December to the tax reform proposals, a report we came up with as a committee back in November.

I know a number of questions have been raised about interest rates, and I have been advised by Mr. Jepson that perhaps I should not try to go over old ground. So

[Translation]

documents budgétaires, et qui n'avait pas été très bien accueillie par le parti du ministre à l'époque.

Le président: Je crois que M. Belsher avait une question urgente. Nous allons poursuivre.

M. Belsher: Puisque nous parlons du pouvoir d'emprunt pour l'année qui vient, et que vous avez fait une déclaration la semaine dernière au sujet de modifications concernant les revenus de placement des compagnies d'assurance, qui auront des répercussions sur les recettes futures du Trésor, pourriez-vous récapituler ces répercussions pour l'année qui vient?

M. Wilson (Etobicoke-Centre): Il n'y en aura aucune pour l'année qui vient. Les recettes de cette taxe avec ses ajustements seront identiques au cours des trois premières années et ne varieront guère, seront légèrement inférieures à la quatrième. Par conséquent, il n'y aura pratiquement pas de changement pendant les quatre premières années et étant donné les dispositions transitoires que nous avons établies et le fait que la taxe elle-même, la taxe de 15 p. 100, sera mise en place immédiatement au lieu d'être introduite progressivement sur cinq ans.

M. Cassidy: Je suis heureux d'accueillir le ministre et j'aimerais lui dire à propos du secret budgétaire que je suis entièrement favorable aux initiatives qui vont dans le sens de l'ouverture, contrairement à ce que vous avez laissé entendre. Il faudrait cependant, monsieur le ministre, que le ministre lui-même et le ministère participent à ces innovations. Sans m'étendre sur la question, je pense donc qu'il serait souhaitable que nous vous y rencontrions un peu plus souvent qu'une fois tous les huit mois et demi, comme c'est le cas actuellement puisque vous êtes venus pour la dernière fois à notre comité en juin dernier je crois.

M. Wilson (Etobicoke-Centre): C'est probablement la dernière fois qu'on m'y a invité.

M. Cassidy: Bon, je ne suis pas sûr. Nous avons quand même l'impression que vous vous faites un peu tirer l'oreille.

M. Warner: Il ne vous voit pas assez souvent à la Chambre.

M. Cassidy: Je pense aussi qu'il y a un véritable problème au niveau du ministère des Finances, peut-être à votre niveau, monsieur le ministre, mais en tout cas au niveau du ministère, car celui-ci ne semble pas vouloir profiter des contributions utiles de notre comité. C'est en tout cas l'impression que nous avons eue en lisant la réponse que vous avez donnée en décembre au rapport que notre comité avait rédigé en novembre sur les propositions de réformes fiscales.

Je sais qu'on a posé plusieurs questions sur les taux d'intérêt, et M. Jepson m'a conseillé de ne pas revenir sur des sentiers battus. Je pourrais donc peut-être poser une

[Texte]

perhaps I can raise a very specific question that I think has not been raised specifically. In the House last week, you stated:

I believe the policies of the Governor of the Bank of Canada reflect his understanding of the performance of the Canadian economy. I personally agree with these policies

That was quite readily seen as an endorsement of the policies of the Governor of the Bank of Canada.

Mr. Minister, as you know, the governor has appeared before this committee—in fact, twice he has appeared before the committee—and when asked about his goals for inflation, has indicated that his goal is to bring inflation down to a zero rate of inflation. In view of your statement last week that you agree with the policies of the Governor of the Bank of Canada, do you agree with that policy, and is it therefore your target also to have a zero rate of inflation in Canada?

Mr. Wilson (Etobicoke Centre): I answered almost that specific question before you came to the committee meeting. I will not go into the same details as I did at that time, but the point I made then was that I think the interpretation that has been given to that particular comment on the part of the governor is a far shorter timeframe than he intended.

Mr. Cassidy: So you agree with that, but in a slightly longer timeframe than has been suggested. Is that what you are saying?

Mr. Wilson (Etobicoke Centre): I am saying that what we should be doing is continually working to reduce inflation. Obviously I think that can have some very positive benefits for the Canadian economy, in particular people who I think both you and I would agree are very important members of the Canadian society; that is, senior citizens who are on fixed incomes.

Mr. Cassidy: Mr. Minister, can you tell us what the timeframe is in which you anticipate seeking to reduce the inflation rate to zero? Is it one year, six months, two years, or many years?

Mr. Wilson (Etobicoke Centre): I think what we should be doing, Mr. Cassidy, is continually trying to get inflation rates down because that is the fastest way I know to get lower interest rates. The policy of the government and the policy of the Bank of Canada, I believe, is to strive continually to that end.

Mr. Cassidy: In other words, we cannot have lower interest rates until the inflation rate is down very substantially from present levels. Is that correct?

Mr. Wilson (Etobicoke Centre): I think the tendency of the New Democrat Party is to want to wave a wand to give specific instructions that—

Mr. de Jong: Come on! Were you in opposition not demanding lower interest rates?

[Traduction]

question très précise qui ne l'a pas encore été. Vous avez déclaré la semaine dernière à la Chambre:

Je crois que les politiques du Gouverneur de la Banque du Canada montrent qu'il comprend le fonctionnement de l'économie canadienne. Je suis personnellement d'accord avec ces politiques.

On en a aussitôt conclu que vous donniez votre aval aux politiques du Gouverneur de la Banque du Canada.

Comme vous le savez, monsieur le ministre, le gouverneur a comparu deux fois devant notre comité, et quand nous lui avons demandé quels étaient ses objectifs en matière d'inflation, il nous a répondu qu'il voulait essayer de ramener l'inflation à zéro. Puisque vous avez déclaré la semaine dernière que vous étiez d'accord avec les politiques du Gouverneur de la Banque du Canada, êtes-vous d'accord avec cette politique et avez-vous donc l'intention d'essayer de ramener le taux d'inflation du Canada à zéro.

M. Wilson (Etobicoke-Centre): J'ai répondu pratiquement à la même question avant votre arrivée au comité. Je ne veux pas revenir dans le détail de cette réponse, mais je vous dirai simplement qu'on a interprété les paroles du gouverneur, mais que je pense qu'il envisageait un échéancier beaucoup plus long.

M. Cassidy: Donc, vous êtes d'accord, mais à plus long terme. C'est bien cela?

M. Wilson (Etobicoke-Centre): Je dis que nous devons constamment nous efforcer de réduire l'inflation. Je suis naturellement convaincu que cela peut avoir des effets bénéfiques pour l'économie canadienne, en particulier pour des gens que vous et moi considérons comme des éléments très importants de notre société, c'est-à-dire les personnes âgées qui ont un revenu fixe.

M. Cassidy: Monsieur le ministre, à quelle échéance envisageriez-vous de ramener à zéro le taux d'inflation? Un an, six mois, deux ans, des années?

M. Wilson (Etobicoke-Centre): Ce qu'il faut faire, monsieur Cassidy, c'est constamment nous efforcer de réduire les taux d'inflation car à ma connaissance c'est le moyen le plus rapide de faire tomber les taux d'intérêt. La politique du gouvernement et la politique de la Banque du Canada, je crois, c'est précisément cela.

M. Cassidy: Autrement dit, les taux d'intérêt ne baisseront pas tant que l'inflation n'aura pas sérieusement régressé. C'est bien cela?

M. Wilson (Etobicoke-Centre): Je crois que la tendance du Nouveau Parti Démocratique, c'est de faire marcher à la baguette. . .

M. de Jong: Allons! Quand vous étiez dans l'opposition, vous ne réclamiez pas un abaissement des taux d'intérêt?

[Text]

Mr. Wilson (Etobicoke Centre): Sure I was.

Mr. de Jong: All right. This committee has a good track record of keeping the political rhetoric to a relatively good minimum, and we work well together. Mr. Minister, welcome to the new reality.

Mr. Wilson (Etobicoke Centre): Let me answer the question in the context—

Mr. de Jong: Do not come in here and give us the political rhetoric. We are interested in the issues and we are interested in some good solid discourse.

Mr. Wilson (Etobicoke Centre): Okay, let me give you the good solid discourse then, Mr. de Jong.

Mr. de Jong: It is not Question Period, and we are not grandstanding.

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Mr. Wilson (Etobicoke Centre): Your desire is to provide instruction to the Governor of the Bank of Canada to drop interest rates tomorrow. That is not political rhetoric; it is exactly what you said.

Mr. de Jong: Sir, we want to explore with you the possibility of dropping the interest rates and getting some flexibility in our economic strategy in this country. We want to hear from you why it is not quite acceptable now. It was a number of years ago. Why is it that when you cross the floor things look different? Mr. Cassidy and I might be making that trip a few months from now, and we might have the same experiences.

Mr. Wilson (Etobicoke Centre): Over my dead body.

The Chairman: They are getting ready to move you out.

Mr. Wilson (Etobicoke Centre): I have never said to give an instruction to the Bank of Canada to get interest rates down because it does not work. I have said it in opposition and in government. The way to get interest rates down is to follow a combination of economic policies which will result in lower inflation. It is as simple as that.

Mr. Cassidy: We find this very puzzling, Mr. Minister. I know this point has been raised already, but in recent weeks we have seen the Canadian dollar go up by about 2.5 cents relative to the American dollar. We have seen the Bank of Canada facing a choice. The Bank of Canada could have eased up on the monetary side to prevent the exchange rate from rising at an even more rapid rate, but it chose to buy American dollars, sell Canadian dollars, and add to the Canadian reserves as a means, to some extent, of moderating an increase that might have been an extra one or two cents higher in relation to the American rate over that period.

Perhaps I can ask this question directly. The exchange rate policy is not the policy of the Bank of Canada, but the policy of the government. Was it a decision by you

[Translation]

M. Wilson (Etobicoke-Centre): Bien sûr que si.

M. de Jong: Parfait. Notre comité a toujours su éviter de s'égarer dans les méandres des discours politiques, et y fonctionne bien. Monsieur le ministre, bienvenue à cette nouvelle réalité.

M. Wilson (Etobicoke-Centre): Permettez-moi de répondre à cette question dans le contexte. . .

M. de Jong: Vous n'êtes pas là pour nous faire un discours politique. Ce qui nous intéresse, c'est la réalité, et nous voulons du concret.

M. Wilson (Etobicoke-Centre): Bon, je vais vous donner du concret, monsieur de Jong.

M. de Jong: Nous ne sommes pas à la période des questions, ici on ne fait pas des effets de manche.

M. Wilson (Etobicoke-Centre): Vous voulez dire au gouverneur de la Banque du Canada de diminuer les taux d'intérêt demain. Ce n'est pas de la rhétorique politique, c'est exactement ce que vous avez dit.

M. de Jong: Nous voulons essayer de voir avec vous s'il serait possible de réduire les taux d'intérêt et d'assouplir la stratégie économique de notre pays. Nous voulons que vous nous expliquiez pourquoi ce n'est pas possible immédiatement. C'était possible il y a quelques années. Pourquoi les choses changent-elles complètement du jour au lendemain quand on se retrouve de l'autre côté du manche. Comme M. Cassidy et moi-même allons peut-être suivre le même parcours dans quelques mois, nous allons peut-être faire la même expérience.

M. Wilson (Etobicoke-Centre): Plutôt mourir.

Le président: Ils sont prêts à appeler le corbillard.

M. Wilson (Etobicoke-Centre): Je n'ai jamais dit qu'il fallait ordonner à la Banque du Canada de réduire les taux d'intérêt parce que cela ne marche pas. Je l'ai dit dans l'opposition et au gouvernement. Pour faire descendre les taux d'intérêt, il faut appliquer un ensemble de politiques économiques qui se traduisent par une baisse de l'inflation. C'est aussi simple que cela.

M. Cassidy: C'est très bizarre, monsieur le ministre. Je sais qu'on l'a déjà dit, mais depuis quelques semaines le dollar canadien a monté de 2.5 sous et demi par rapport au dollar américain. La Banque du Canada a dû faire un choix. Elle aurait pu lâcher du lest du côté monétaire pour éviter une augmentation encore plus rapide du taux de change, mais elle a décidé d'acheter des dollars américains, de vendre des dollars canadiens et d'accroître les réserves canadiennes pour modérer dans une certaine mesure une progression qui aurait pu faire augmenter notre dollar d'un ou deux sous par rapport au dollar américain au cours de cette période.

Je pourrais peut-être poser cette question directement. La politique en matière de taux de change n'est pas fixée par la Banque du Canada, mais par le gouvernement. Est-

[Texte]

and your department that the bank should buy at that rate to keep the dollar from going even higher in relation to the American dollar?

Mr. Wilson (Etobicoke Centre): The policies the Bank of Canada have been following are supported by the Government of Canada.

Mr. Cassidy: That is an enigmatic response, Mr. Minister, although I recognize to some extent that it is impossible to avoid. You said that the goal of a zero rate of inflation is in your view a matter of time—it is not an instant goal; it is a matter of time. On two occasions appearing before the committee in this room, the governor indicated that his goal is a zero rate of inflation. He has not qualified it, Mr. Minister. He has not indicated that this is something to be achieved in three or four years' time, but that it is a policy to be achieved now at the expense of desirable economic objectives, specifically the rate of growth and the rate of—

Mr. Wilson (Etobicoke Centre): Mr. Cassidy, you are distorting what Mr. Crow said.

Mr. Cassidy: No, not at all. I am quoting him exactly.

Mr. Wilson (Etobicoke Centre): It is a distortion and you know it.

Mr. Cassidy: It is not a distortion, Mr. Minister. We asked the governor his goal and he said it was a zero rate of inflation. He made it very clear.

Mr. Wilson (Etobicoke Centre): A minute ago you said he said his goal was a zero rate of inflation at the expense of other economic achievements such as—

Mr. Cassidy: I stated that his goal was a zero rate of inflation. He did not qualify it in terms of time.

Mr. Wilson (Etobicoke Centre): You distorted what he said by adding the qualifier.

Mr. Cassidy: Mr. Minister, I said that by setting that goal and not bearing in mind the impact in terms of unemployment, regional disparity or growth, you have a unidimensional goal from the Governor of the Bank of Canada, who only sees control of inflation—many central bankers are like that—as his objective and does not see the consequences of that policy in relation to the impact on the rest of the economy. Mr. Minister, what I hear you say in the House of Commons and here is that you endorse that policy. If you endorse that policy, you are also adopting a unidimensional policy which ignores the impact in terms of employment, growth and regional disparity.

Mr. Wilson (Etobicoke Centre): That is garbage. For you to draw the interpretation for the—

Mr. Cassidy: Mr. Chairman, is that language acceptable in this committee?

[Traduction]

ce vous et votre ministère qui avez décidé que la banque devait acheter à ce taux pour empêcher notre dollar de monter encore plus par rapport au dollar américain?

M. Wilson (Etobicoke-Centre): Les politiques suivies par la Banque du Canada ont l'appui du gouvernement du Canada.

M. Cassidy: C'est une réponse énigmatique, monsieur le ministre, mais je me rends bien compte que c'est inévitable. Vous dites que l'objectif consistant à ramener l'inflation à zéro est une question de temps, que cela ne peut pas se faire du jour au lendemain mais que c'est possible sur une certaine période. A deux reprises, le gouverneur a déclaré à notre comité que son objectif était de ramener l'inflation à zéro. Il n'a dû lancer cette affirmation. Il ne nous a pas dit que cela prendrait trois ou quatre ans, mais au contraire que c'était une politique qu'il fallait réaliser tout de suite au détriment de certains objectifs économiques souhaitables, en particulier le taux de croissance et le taux de...

M. Wilson (Etobicoke-Centre): Monsieur Cassidy, vous déformez les propos de M. Crow.

M. Cassidy: Pas du tout. Je le cite textuellement.

M. Wilson (Etobicoke-Centre): Vous déformez ses paroles, vous le savez très bien.

M. Cassidy: Je ne les déforme pas, monsieur le ministre. Nous avons demandé au gouverneur quel était son objectif et il nous a dit que c'était de ramener l'inflation à zéro. Il l'a dit très clairement.

M. Wilson (Etobicoke-Centre): Vous venez de dire qu'il avait déclaré que son objectif était de ramener l'inflation à zéro au détriment d'autres réalisations économiques telles que...

M. Cassidy: Je dis que son objectif était de ramener l'inflation à zéro. Il n'a pas dit combien de temps cela prendrait.

M. Wilson (Etobicoke-Centre): Vous avez déformé ses paroles en y apportant un complément.

M. Cassidy: Monsieur le ministre, je dis qu'en se fixant cet objectif sans tenir compte de ses répercussions sur le chômage, les disparités régionales ou la croissance, le gouverneur de la Banque du Canada se préoccupe d'un seul côté de la médaille, l'arrêt de l'inflation, et c'est une attitude commune à de nombreux directeurs de banque centrale, sans se préoccuper des répercussions de cette politique sur le reste de l'économie. Monsieur le ministre, vous dites à la Chambre et ici même que vous approuvez cette politique. Si vous l'approuvez, c'est que vous adoptez vous aussi une vision en tunnel qui ne tient pas compte des répercussions sur le plan de l'emploi, de la croissance et de la disparité régionale.

M. Wilson (Etobicoke-Centre): Foutaise. Cette interprétation...

M. Cassidy: Monsieur le président, de telles expressions sont-elles admises ici?

[Text]

[Translation]

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Mr. Wilson (Etobicoke Centre): Oh, yes.

Mr. Cassidy: Well let it stand then. Mr. Minister, I am not trying to throw invective at you. I am asking serious questions in a serious way.

Mr. Wilson (Etobicoke Centre): You are distorting things that have been said by others. I am saying if you are going to distort them, you are going to get back in kind what I think of those distortions.

This government has produced the best job creation rate of any of the major industrialized countries over the past three and a half years. For you to say we are following policies deliberately designed to increase unemployment is nonsense. That is political rhetoric.

We are trying to follow a balance of economic policies, and I said this many times before you arrived this evening. The bottom line of the policies we have been following is the best economic growth rate of the major industrialized countries, and the best job creation rate of any of the major industrialized countries. So there you have it. Those are the things that drive us. If that means when inflation starts to creep up we should be trying to modify those increases in inflation rates, then these are policies we will follow, because control of the inflation rate is a very important element of a successful economic policy.

Mr. Cassidy: Mr. Minister, if you went to the man on the street in Vancouver or the woman on the street in Halifax and compared the two statements, they would say they do not find that they are consonant. They do not seem to jibe.

You state what we are looking for is a balanced policy, one that takes into account the inflation rate, the rate of creation of jobs, the unemployment rate and the growth rate, and hopefully the question of regional disparities as well. That is something I think people would find reasonable as an objective for economic policy and for a Minister of Finance. At the same time, you say you are in agreement with the governor, who states that his objective with respect to inflation is a zero inflation rate. Most men and women on the street would say there is something there that does not wash. I do not see how a zero inflation rate is the same as what the Minister of Finance says he wants, which is a balance of all of these things. He is prepared to ease up in terms of pushing the inflation rate down if the cost is too high, in terms of unemployment or other factors.

In other words, most people would say there is something at odds there, or you are giving two different stories. One is that you agree with a zero inflation rate, and the other is you are looking for a balanced policy.

M. Wilson (Etobicoke-Centre): Oh, oui.

M. Cassidy: Dans ce cas nous laisserons les choses comme elles sont. Monsieur le ministre je n'essaie de vous lancer des invectives. Je vous pose de façon tout à fait sérieuse des questions sérieuses.

M. Wilson (Etobicoke-Centre): Vous déformez certaines choses qui ont été dites par d'autres. Ce que je dis, c'est que si vous allez les déformer, je vais vous rendre la monnaie de votre pièce.

L'actuel gouvernement a le meilleur taux de création d'emploi parmi l'ensemble des gros pays industrialisés pour les trois dernières années et demie. Il est parfaitement absurde de dire que nous suivons des politiques conçues dans le but express d'augmenter le chômage. C'est de la rhétorique politique.

Nous nous efforçons de suivre un ensemble de politiques économiques équilibrées, et j'ai répété cela plusieurs fois avant votre arrivée. Le principe directeur de ces politiques c'est la réalisation du meilleur taux de croissance économique parmi l'ensemble des importants pays industrialisés ainsi que du meilleur taux de création d'emplois parmi ces mêmes pays. C'est là le but. Ce sont ces choses-là qui nous motivent. Si cela signifie que, lorsque le taux d'inflation commence à remonter nous devrions essayer contenir ces augmentations, alors les politiques que nous suivrons iront dans ce sens, car contrôler le taux d'inflation est un élément très important de toute politique économique qui doit réussir.

M. Cassidy: Monsieur le ministre, si vous interrogez monsieur tout le monde à Vancouver ou madame tout le monde à Halifax, si vous compariez les deux déclarations, ils vous diraient qu'elles ne s'accordent pas très bien. Elles ne semblent pas coller.

Vous dites que ce que nous recherchons c'est une politique équilibrée qui tienne compte du taux d'inflation, du taux de création d'emplois, du taux de chômage et du taux de croissance et sans doute également—en tout cas c'est à espérer—des disparités régionales. Je pense que c'est là un objectif économique que les gens trouveraient raisonnables dans le contexte d'une politique nationale énoncée par le ministre des Finances. Mais vous dites en même temps que vous êtes d'accord avec le gouverneur de la banque, qui déclare que son objectif c'est un taux d'inflation nul. La plupart des citoyens du pays diraient qu'il y a là quelque chose qui ne colle pas. Je ne vois pas en quoi un taux d'inflation nul rejoint ce que prône le ministre des Finances, à savoir un équilibre parmi toutes ces choses. Il est prêt à lâcher un peu de lest dans sa lutte contre l'augmentation du taux d'inflation si le coût est trop élevé du côté du chômage et dans certain nombre d'autres secteurs.

En d'autres termes, la plupart des gens diraient qu'il y a quelque chose qui cloche, ou bien que vous racontez deux histoires différentes. La première, c'est que vous êtes d'accord avec l'idée d'un taux d'inflation nul, et l'autre,

[Texte]

Perhaps you could indicate to the committee which it is you are pursuing.

Mr. Wilson (Etobicoke Centre): I think what Mr. Cassidy is doing here is trying to draw some very simplistic conclusions from what is clearly a very complex issue, and that is the overall objectives, the overall conduct of economic policy. Mr. Cassidy, you are not going to get from me the simplistic conclusions you are trying to draw. I think you are trying to draw the conclusion that it is a deliberate policy of this government to snuff out the employment gains we have made over the past three and a half years. It is preposterous for you to think that is what we are trying to do.

We are trying to get growth rates improving in this country, and I think we have been successful. We are trying to get unemployment down, and I think we have been successful. I could take you through the statistics of both of those if you want. We have tried to get inflation down, and we have been less successful at that, although we have had the inflation rate around 4% per annum. I think we have had the reflection of these economic policies, which have strengthened the economy and have improved our competitive position. That is being reflected in the strength of the Canadian dollar.

• 2120

So it is clear that what you are trying to do here is draw these simplistic conclusions, and they do not work.

Mr. Cassidy: Mr. Minister, as you know, the exporters' association itself has expressed concern over the recent sharp increase in the Canadian dollar and the effect that has on our trade position, our competitiveness, and our ability to maintain a favourable trade balance to offset our deficit on invisibles. So I do not need to apologize for raising that particular question, because a very important section of the economic community has started raising it as well.

Mr. Wilson (Etobicoke Centre): I am not suggesting you withdraw that or you should not raise it. It is a valid concern to express. What I am taking exception to, Mr. Cassidy, is that you are trying to draw simplistic, unidimensional—to use your words—conclusions, and they do not work.

Mr. Cassidy: Mr. Minister, do you not think you and I should hail a cab tomorrow morning or walk over to Wellington at Bank and drop in on the Governor of the Bank of Canada and suggest that he should stop making simplistic statements about what his policy goals are in

[Traduction]

c'est que vous cherchez à mettre au point une politique équilibrée. Vous pourriez peut-être expliquer au comité laquelle de ces deux histoires correspond à ce que vous visez.

M. Wilson (Etobicoke-Centre): Je pense que M. Cassidy est en train de tirer des conclusions très simplistes d'une question qui est manifestement très complexe, notamment les objectifs d'ensemble et l'orientation générale de la politique économique. Monsieur Cassidy vous n'allez pas obtenir de moi les conclusions simplistes que vous cherchez à tirer. Je pense que la conclusion que vous essayez de tirer c'est que l'actuel gouvernement essaie délibérément d'écraser les gains en matière d'emploi que nous avons réalisés au cours des trois années et demie qui viennent de s'écouler. Il est absurde de dire que c'est cela que nous essayons de faire.

Nous essayons d'améliorer les taux de croissance au pays, et je pense que nous avons réussi. Nous essayons de faire baisser le taux de chômage et là encore je pense que nous avons réussi. Je pourrais d'ailleurs si cela vous intéresse parcourir les statistiques correspondant à ces deux dossiers. Nous avons essayé de réduire l'inflation, et peut-être nous avons moins bien réussi dans ce domaine-là, bien que l'inflation se situe aux alentours de 4 p. 100 par an. J'ai bien l'impression que tout le monde a pu constater les conséquences de ces politiques économiques, qui ont renforcé l'économie et qui ont amélioré notre position concurrentielle. Tout cela se trouve d'ailleurs reflété dans la force du dollar canadien.

Il est donc clair que ce que vous essayez de faire ici, c'est de tirer des conclusions simplistes, mais elles ne s'appliquent pas du tout.

M. Cassidy: Comme vous le savez, monsieur le ministre, l'Association des exportateurs elle-même se dit préoccupée par la récente montée en flèche du dollar canadien et par les conséquences que cela aura sur notre position commerciale, sur notre compétitivité et sur notre capacité de maintenir une balance commerciale favorable qui nous permette de contrecarrer notre déficit pour ce qui est des invisibles. Je n'ai donc pas à m'excuser d'avoir soulevé cette question, car un secteur très important de l'économie canadienne l'a déjà fait.

M. Wilson (Etobicoke-Centre): Je ne dis pas que vous devriez retirer votre question et je ne prétends pas non plus qu'il aurait mieux valu que vous ne la posiez pas. C'est une préoccupation tout à fait valable qui mérite d'être exprimée. Ce que je n'apprécie pas, monsieur Cassidy, c'est que vous essayez de tirer des conclusions simplistes et unidimensionnelles—pour reprendre vos propres mots—conclusions qui ne s'appliquent pas.

M. Cassidy: Monsieur le ministre, ne pensez-vous pas qu'il serait bon que vous et moi nous prenions un taxi demain matin ou bien nous rendions ensemble à pied à l'angle des rues Wellington et Bank pour rendre une petite visite surprise au gouverneur de la Banque du

[Text]

bringing inflation down to zero? Do you not think he is giving confusing and contradictory messages to this committee and to the public at large if he states that his goal for inflation is to have a zero inflation rate and he fails to qualify that by indicating that there are other objectives of policy that have to be looked at as well? And if he is being simplistic and I can say so, maybe you should say so as well, Mr. Minister.

Mr. Wilson (Etobicoke Centre): No, you are drawing that conclusion, Mr. Cassidy. It is not Mr. Crow's position to talk about other parts of economic policy that fall under the purview of the Government of Canada or the Minister of Finance. I will draw those conclusions, and I have drawn those conclusions this evening. I repeat, I think it is improper or incorrect—I will not impute motives, I will just say it is incorrect—for you to draw the unidimensional, simplistic conclusions you just have, which are quite counter to anything I have said this evening or previously at this committee or in other places.

Mr. Warner: Mr. Minister, last Wednesday you made a statement concerning the investment tax on the life insurance industry that probably stopped a very large letter-writing campaign and had the agreement of both the Canadian Life and Health Insurance Association and the Life Underwriters Association of Canada. I wonder if you are considering a similar statement on the proposed changes in taxes for the property and casualty insurance industry.

Mr. Wilson (Etobicoke Centre): Could you give me the question again, please?

Mr. Warner: While you are proposing to change the reserves of the property and casualty insurance companies, I wonder if you are now considering making changes, in conjunction with consultation with the insurance industry, that would have them in agreement with changes that could be considered acceptable.

The Chairman: Mr. Minister, you might know we have been meeting with the Superintendent of Insurance on this matter.

Mr. McCrossan: Maybe before you answer that I could elaborate a little. Last Wednesday, was it. . . ?

The Chairman: Wednesday, and we have Mr. Hammond before us tomorrow afternoon.

Mr. McCrossan: Last Wednesday Mr. Hammond stated before the committee that it was his view that the current reserves were not acceptable and indeed required some strengthening. Yet the tax proposal involves a weakening of reserves. Mr. Hammond indicated he would be

[Translation]

Canada pour lui dire qu'il serait peut-être bon qu'il arrête de faire des déclarations simplistes quant à son objectif de ramener à zéro le taux d'inflation? Ne pensez-vous pas qu'il est en train de donner des messages confus et contradictoires au comité ainsi qu'au public en déclarant que son objectif c'est de ramener à zéro le taux d'inflation, surtout lorsqu'il omet de dire qu'il y a d'autres objectifs qu'il conviendrait d'examiner également? Et s'il est en train de faire des déclarations simplistes et que je peux l'affirmer, alors vous pourriez peut-être le faire également, monsieur le ministre.

M. Wilson (Etobicoke-Centre): Non, c'est là la conclusion que vous, vous avez tirée, monsieur Cassidy. Il n'incombe pas à M. Crow de se prononcer sur d'autres éléments de la politique économique qui relève du gouvernement du Canada ou du ministre des Finances. C'est à moi qu'il revient de tirer ces conclusions, et c'est ce que j'ai déjà fait ce soir. Je le répète, je pense qu'il est déplacé ou malhonnête—je ne veux pas vous faire un procès d'intention, et je me contenterai de dire que c'est malhonnête—de tirer les conclusions simplistes et unidimensionnelles dont vous venez de parler, conclusions qui vont carrément à l'encontre de tout ce que j'ai dit ce soir ou à d'autres occasions au comité ou ailleurs.

M. Warner: Monsieur le ministre, mercredi dernier vous avez fait une déclaration concernant la taxe d'investissement sur l'assurance-vie, déclaration qui a sans doute empêché une campagne postale d'envergure et avec laquelle était d'accord et l'Association canadienne des compagnies d'assurances de personnes et l'Association des assureurs-vie du Canada. J'aimerais savoir si vous envisagez de faire une déclaration semblable relativement au changement que vous vous proposez d'apporter aux taxes qui seront applicables aux activités des compagnies d'assurance de biens et de risques divers.

M. Wilson (Etobicoke-Centre): Pourriez-vous, s'il vous plait, répéter votre question?

M. Warner: Étant donné que vous vous proposez de changer les réserves pour les compagnies d'assurance de biens et de risques divers, je me demande si vous envisagez de consulter le secteur des assurances relativement à certains changements sur lesquels vous pourriez peut-être vous entendre avec elles.

Le président: Monsieur le ministre, vous savez peut-être que nous avons rencontré le surintendant des assurances pour en discuter avec lui.

M. McCrossan: Avant que vous ne répondiez, je pourrais peut-être ajouter quelques précisions. C'était bien mercredi dernier. . . ?

Le président: Mercredi, et M. Hammond comparait devant le comité demain après-midi.

M. McCrossan: Mercredi dernier, M. Hammond a déclaré devant le comité que selon lui les réserves actuelles étaient insuffisantes et qu'il faudrait les renforcer. Or, votre proposition vise l'affaiblissement des réserves. Si j'ai bien compris, M. Hammond s'est dit tout

[Texte]

prepared and eager, I think, to come before the committee at such time as that tax proposal for P and C companies was in law, to express his views about the adequacy of the current reserves.

[Traduction]

à fait prêt à comparaître devant le comité une fois que les taxes applicables aux compagnies d'assurance de biens et de risques divers seront devenues loi—il me semble qu'il a même dit qu'il était très désireux de le faire—afin de pouvoir exprimer son point de vue quant au niveau insatisfaisant des réserves actuelles.

• 2125

By way of preamble, I might add that the Canadian Institute of Actuaries' annual meeting is on in Ottawa today and tomorrow. I have had members of the council express to me the same view the current that reserves are not over-adequate and in fact may be inadequate. The question the committee was raising last week, and which Mr. Warner is putting tonight, is if both your Superintendent of Financial Institutions and the professional bodies feel the reserves need strengthening, why are you pushing to reduce the reserves to generate tax revenue?

Mr. Wilson (Etobicoke Centre): I think you are imputing a motive which is not there.

Mr. McCrossan: I am not saying this is the sole reason for reducing reserves. As part of tax reform, the reserves would be reduced when the superintendent has indicated he had formally advised your tax policy group he had concerns about the adequacy of the reserves in the first place.

Mr. Wilson (Etobicoke Centre): There are two points to make here. There are two concerns the government has: one is a prudential reserve, a prudential point of view, and the other is a tax policy point of view. Both of these have to be taken into account in arriving at decisions the government might want to take, either through the Minister or through the superintendent.

We have made one change as it relates to the reserves for property and casualty companies. Certainly we are always open to discussions with any of these industries, as demonstrated by our activities over the past three and a half years. In reply to the specific question of whether we are considering other changes, the answer is no.

Mr. Warner: In light of what is happening in the industry... There is certainly a trend in the cycle of the industry indicating that competition, together with increased pressure for lower rates, will probably have an effect on profits. This is a cycle the property and casualty industry is quite used to. Having had a year or two of reasonable profit, they usually become very competitive and reduce their profit-to-losses. This trend seems to be in place and probably is a contributing factor to the assessment that Paul indicates: the actuaries suggest that reserves now are inadequate. As your department hears his evidence, I would hope perhaps you would reconsider and possibly propose a change to the existing proposal for a change that is before us.

En guise de préambule, j'ajoute que l'Institut canadienne des actuaires tient aujourd'hui et demain sa réunion annuelle ici même à Ottawa. Des membres du conseil m'ont exprimé un point de vue identique, à savoir que les réserves, loin d'être plus adéquates pourraient bien être insuffisantes. La question que posait le comité la semaine dernière et que reposait M. Warner ce soir est la suivante: si le surintendant des institutions financières et les organismes professionnels estiment que les réserves doivent être renforcées, pourquoi tenez-vous à ce qu'elles soient réduites pour produire des revenus fiscaux?

M. Wilson (Etobicoke-Centre): Je pense que vous me prêtez des intentions que je n'ai pas.

M. McCrossan: Je ne dis pas que c'est la raison pour vouloir réduire les réserves. Cependant, dans le cadre de la réforme fiscale, les réserves seraient réduites, alors que le surintendant a indiqué qu'il avait officiellement fait part à votre groupe chargé de la politique fiscale de ses préoccupations au sujet de l'insuffisance des réserves.

M. Wilson (Etobicoke-Centre): La démarche du gouvernement est double: d'abord, il tient à s'assurer que les réserves soient à un niveau prudent; ensuite, il doit établir une politique fiscale. Le gouvernement doit tenir compte de ces deux points de vue dans ces décisions qui passent par le ministre ou par le surintendant.

Nous avons effectué une modification pour les réserves des compagnies d'assurances de biens et contre les risques divers. Cependant, nous sommes toujours prêts à discuter avec tous les secteurs de l'industrie, comme nous l'avons démontré par nos actions depuis trois ans et demi. Si vous voulez savoir si nous envisageons d'autres modifications, la réponse est non.

M. Warner: Compte tenu de ce qui se passe dans ce secteur... et la concurrence et les pressions accrues en vue de réduire les taux risquent d'avoir un effet sur les profits. C'est un cycle de son activité auquel les compagnies d'assurances de biens contre les risques divers sont habituées. Après un an ou deux de profits raisonnables elles deviennent habituellement très compétitives et réduisent leur marge des profits et pertes. C'est le cycle qui semble se manifester actuellement et qui contribue probablement à la situation relevée par Paul: les actuaires considèrent maintenant que les réserves sont inadéquates. Devant les faits, il est à espérer que vous revisiez votre position et que vous acceptiez de modifier votre proposition de réforme fiscale.

[Text]

Mr. Wilson (Etobicoke Centre): Let me make a general comment and I will ask Mr. Dodge whether he wishes to add anything to it.

What we are trying to do in tax reform is to establish a tax regime that is comparable between different participants in the financial service sector. We want to do this in a way that will provide a stable tax regime able stand the test of time through periods of high profitability and periods of low profitability. As you point out, in that industry they do swing, and I do not think changes in the nature of tax treatment of reserves is going to change the particular history of experience. I will certainly keep in mind the points you have expressed as we continue our discussions with this and other industries as time goes by. That is the motivation we have had here.

• 2130

Mr. Dodge, do you want to add anything to that?

Mr. David Dodge (Senior Assistant Deputy Minister, Tax Policy and Legislation, Department of Finance): Just two things, Minister. We have continued to have ongoing discussions with the P and C, and those have been very, very useful. Clearly the regulatory and indeed the accounting framework for the industry are going to be undergoing some modifications. What we said to the industry is as those modifications are undertaken we will continue to review the tax framework to ensure it does stay in line. As the Minister pointed out when he tabled the ways and means motions on December 16, we have indeed made an allowance for this evolving nature in the rules of the accounting and regulatory framework as they come into effect.

Mr. Warner: Perhaps the industry will agree with the discounting of reserves in principle, but certainly listening to Mr. Hammond very carefully. . . I assume from what you are saying that accounting procedures will allow them to implement it in a way that is not going to put property and casualty companies into insolvency.

Mr. Dodge: Right. We are concerned with the implementation framework in respect to solvency, but also in terms of administrative feasibility. We have been working closely with the industry to ensure that we do not simply make hundreds of jobs for accountants and lawyers in trying to comply with the tax regulations.

Mr. Warner: Good. Thank you very much.

The Chairman: Can we move on now to the clause-by-clause consideration of this bill? It being 9.30 p.m., and every member having had a chance to ask a couple of questions, I am quite prepared to go on with some questions if we could get through it quickly, or whatever you want to do.

Clauses 1 to 4 inclusive agreed to.

[Translation]

M. Wilson (Etobicoke-Centre): Je vais vous répondre de façon générale et je vais demander à M. Dodge d'ajouter quelque chose s'il le désire.

Par la réforme fiscale, nous essayons d'établir un régime fiscal qui soit comparable pour les divers participants des services financiers. Et nous voulons que ce régime fiscal soit stable et durable en période de profits élevés comme en période de profits moins élevés. Comme vous l'avez fait remarquer, ce secteur est habitué à des cycles, et il est à espérer que le traitement fiscal des réserves pourra améliorer cette situation. Je tiendrai cependant compte de vos remarques dans les discussions concernant ce secteur et d'autres. Si nous avons agi comme nous l'avons fait, c'est pour la raison que je vous ai indiquée.

Je ne sais pas si vous voulez ajouter quelque chose, monsieur Dodge?

M. David Dodge (sous-ministre adjoint principal, direction de la politique et de la législation de l'impôt, ministère des Finances): Je voudrais seulement revenir sur deux points, monsieur le ministre. Nous avons poursuivi nos discussions avec les compagnies d'assurance générale et nous avons eu d'excellents résultats. Il est clair que le code réglementaire et même comptable de ce secteur sera quelque peu modifié. Nous avons cependant indiqué à l'industrie que nous surveillerons l'évolution de la situation afin de nous assurer que le traitement fiscal reste juste. Comme le ministre l'a fait remarquer lorsqu'il a déposé sa motion des voies et moyens le 16 décembre, nous avons effectivement tenu compte de la nature cyclique de l'activité de ce secteur dans le cadre comptable et réglementaire proposé.

M. Warner: L'industrie sera peut-être d'accord avec une réduction de réserves en principe, mais après ce que vient de dire M. Hammond. . . je comprends de ce que vous venez dire que les procédés comptables permettront aux compagnies d'assurance générale de se conformer aux nouvelles dispositions sans avoir à se déclarer insolvables.

M. Dodge: Oui. Dans l'application du nouveau système, nous ne nous inquiétons pas seulement de la solvabilité, mais également de la faisabilité administrative. Nous travaillons en étroite collaboration avec le secteur afin de nous assurer que nous ne créons pas tout simplement des centaines et des centaines d'emplois pour les comptables et les avocats appelés à interpréter les nouvelles règles fiscales.

M. Warner: Très bien. Merci beaucoup.

Le président: Pouvons-nous passer à l'étude article par article du projet de loi? Il est 21h30 et chaque député a eu l'occasion de poser quelques questions. Je suis prêt à en accepter quelques autres si elles sont courtes. Je suis à votre disposition.

Les articles 1 à 4 inclusivement sont adoptés.

[Texte]

Title agreed to.

Mr. Taylor: Just before we pass this bill, this is my last chance to ask a question on this. I am always a little leery of these cure-alls. When we realize that the interest rate was over 20%, and it is now down to 4.1%, I am just wondering what the factors are that brought that down. There was not a sudden order by the government or the Governor of the Bank of Canada. The causes that made it rise to 24% must have changed.

It makes me think of a case in Alberta when I was an MLA. There were three or four members who had a cure-all for every disease; they called it the cope treatment. Now I do not know whether you have heard about it down here or not, but they were bound that the cope treatment would become the cure-all for all diseases. One time during the question period someone asked a man who was advocating this what happened to his friend who had taken this cope treatment. The chap who was advocating it said yes, he had taken the cope treatment, and he actually died, but he said he never saw anybody die so peacefully.

People say to me at public meetings why does the government not order that the interest rate be reduced to so and so without any consideration of what caused it to get there in the first place. I wondered could you give us a short outline of—

The Chairman: No, he could not.

Mr. Taylor: —the actual things that caused that interest rate to come down to 4.1%, which is wonderful compared to the 18% and 25%.

• 2135

Mr. Wilson (Etobicoke Centre): As the chairman intimated, that is impossible for me to answer in a short way. Without trying to get into the details of what an answer might be for that question, let me go back to your cure-all. You are absolutely right, there are no cure-alls. There is no single factor that led to the increase in inflation or interest rates that ended up in the mess we got into in 1982, nor is there a single policy that resulted in our having the good performance we have today.

Some of those factors are within the control of the Government of Canada: monetary policy, fiscal policy, specific policies related to regional development—these are all things that are within the control of the Government of Canada. But there is a large amount that is outside the control of the Government of Canada: the response of the private sector to government policies, or the response to factors that are developing around us. For example, I for one have never taken credit for the 1,156,000 jobs that have been created; those have been created primarily by the private sector. The Government of Canada has been reducing direct employment in the Government of Canada. The combination of policies

[Traduction]

Le titre est adopté.

M. Taylor: Je voudrais poser une question avant que le projet soit adopté. C'est ma dernière chance. Je suis toujours un peu craintif devant ces remèdes miracles. Nous savons que le taux d'intérêt a déjà dépassé les 20 p. 100 et qu'il se situe actuellement à 4.1 p. 100. Je me demande quels sont les facteurs qui ont contribué à cet état de chose. Je suis sûr que le gouvernement ou le gouverneur de la banque du Canada ne l'a pas ordonné à un certain moment. C'est la conjoncture qui a dû changer depuis le sommet de 24 p. 100.

Je me souviens d'un fait survenu lorsque j'étais député à l'assemblée législative de l'Alberta. Trois ou quatre députés avaient un remède miracle pour toutes les maladies; ils l'appelaient la cure de l'accommodement. Je ne sais pas si vous en avez entendu parler ou non ici, mais cette cure d'accommodement était censée faire des miracles. Une fois, au cours de la période de questions, l'un des partisans de cette cure s'est vu demander de qu'il était advenu de l'un de ses amis qui l'avait suivie. Le partisan de la cure a répondu qu'effectivement l'un de ses amis l'avait essayé mais était mort, d'une mort paisible cependant.

Souvent, lors de réunions publiques, les gens me demandent pourquoi le gouvernement n'ordonne pas la réduction du taux d'intérêt à tel et tel niveau indépendamment de la conjoncture. Je me demande si vous ne pourriez pas nous indiquer brièvement. . .

Le président: Non, il ne peut pas.

M. Taylor: . . . les conditions qui ont permis effectivement la réduction du taux d'intérêt à 4.1 p. 100, ce qui est absolument merveilleux après des sommets de 18 et 25 p. 100.

M. Wilson (Etobicoke-Centre): Comme le président l'a laissé entendre, il m'est impossible de donner une réponse courte. Sans entrer dans les détails, je voudrais revenir à votre idée de panacée. Vous avez tout à fait raison, il n'y a pas de panacée. On ne peut pas mettre sur le compte d'un seul facteur la hausse de l'inflation ou des taux d'intérêt qui a créé les difficultés que nous avons connues en 1982, et à elle seule aucune politique n'est responsable de nos bons résultats actuels.

Certains des ces facteurs relèvent du gouvernement du Canada: la politique monétaire, la politique budgétaire et certaines stratégies en matière de développement régional, ce sont tous des aspects qui relèvent du gouvernement du Canada. Mais il y a bien des éléments qui échappent à son contrôle: la façon dont le secteur privé va réagir aux politiques du gouvernement ou à d'autres phénomènes qui sont en train de se produire. Par exemple, je ne me suis jamais attribué le mérite des emplois qui ont été créés, au nombre de 1,156,000; ces emplois ont été créés surtout par le secteur privé. Le gouvernement du Canada réduit le nombre d'emplois dans la Fonction publique. L'ensemble des politiques ayant pour effet la baisse des

[Text]

related to getting interest rates down, getting inflation down, getting deregulation into the system to a greater extent—all of these I think are motivating the private sector. They are giving consumers and businessmen a greater sense of confidence in what is happening within our country. That combination of things, working together, interacting in complex ways that you and I will never understand, because there are things that are happening that we can not control, results in better economic performance.

The Chairman: Shall I report the bill to the House?

Some hon. members: Agreed.

An hon. member: On division.

The Chairman: Now, does anybody want to ask the Minister all sorts of questions? I am not going to adjourn the meeting yet.

Mr. de Jong: First of all, given the point that we have not heard from the Minister since I think the end of June, I think a session is in order just to discuss the response of the government to the committee's report on tax reform. I hope we will be able to have an opportunity to do that soon.

Arising out of that, I am somewhat concerned with the government's position regarding tax policies in agriculture. In your response to us in December you stated that you would have a consultative process this year and that you will be bringing in suggested changes at the end of 1988. What has occurred in that field? Have you set up the consultative process? Where are things at?

Mr. Wilson (Etobicoke Centre): We have had two meetings with officials. I participated in one. The next meeting is going to be on March 18. Work is continuing between officials and the representatives of the industry. My understanding is that they are progressing quite well and looking at the different options that were on the table at the time of the response to the committee's report of December 16.

Mr. de Jong: Could you tell me who from the industry you have been talking to?

Mr. Wilson (Etobicoke Centre): At the meeting I attended there were 25 to 30 industry representatives. Although I did not attend the whole meeting, that was a full-day meeting, and they were representatives of farm groups from different parts of the country, different sectors of the agriculture industry. There was quite a broad representation. If you want a list then we can give you a list.

• 2140

Mr. McCrossan: I just have a brief question or two about alternatives to the interest rate policy with respect to cooling down inflation.

The governor and you have observed that certain parts of the economy are showing signs of overheating. I guess

[Translation]

taux d'intérêt et de l'inflation, la déréglementation grandissante, tout cela contribue à stimuler le secteur privé. Cela renforce la confiance des milieux d'affaires et des consommateurs dans l'avenir. Tous ces facteurs en conjonction, dans une interaction complexe que nous ne parviendrons jamais à comprendre, car il y a des éléments que nous ne pouvons pas maîtriser, aboutissent à une meilleure performance économique.

Le président: Dois-je faire rapport du projet de loi à la Chambre?

Des voix: D'accord.

Une voix: Avec dissidence.

Le président: Est-ce que quelqu'un voudrait poser des questions générales au ministre? Je ne veux pas encore lever la séance.

M. de Jong: Tout d'abord, puisque nous n'avons pas entendu le ministre depuis la fin juin, j'estime qu'il y a lieu de discuter de la réponse du gouvernement au rapport du Comité sur la réforme fiscale. J'espère que nous en aurons l'occasion bientôt.

À ce propos, je m'inquiète quelque peu de la position du gouvernement au sujet de la fiscalité agricole. Dans votre réponse de décembre vous avez promis un processus de consultation pour cette année et vous espériez proposer des changements à la fin de 1988. Que s'est-il passé? Le processus consultatif a-t-il été établi? Ou en êtes-vous?

M. Wilson (Etobicoke-Centre): Nous avons eu deux réunions avec les fonctionnaires, j'ai participé à une de ces réunions. La prochaine aura lieu le 18 mars. Les fonctionnaires et les représentants de l'industrie poursuivent leurs travaux. Je crois savoir que les progrès sont satisfaisants et que l'on examine les différentes options proposées lors de la réponse au rapport du Comité le 16 décembre.

M. de Jong: Pouvez-vous me dire qui sont vos interlocuteurs dans l'industrie?

M. Wilson (Etobicoke-Centre): Il y avait entre 25 et 30 représentants de l'industrie à la réunion à laquelle j'ai assisté. Je ne suis pas resté pour toute la réunion, qui a duré une journée entière, mais il y avait des représentants de producteurs agricoles des diverses régions canadiennes, des différents secteurs de l'industrie agricole. C'était une représentation assez large. Si vous voulez la liste des participants, nous pourrions vous la faire parvenir.

M. McCrossan: Quelques brèves questions au sujet de nos options en matière de la politique sur les taux d'intérêt afin de ralentir l'inflation.

Le gouverneur et vous avez fait remarquer que dans certaines régions du Canada il y a des signes de

[Texte]

the archetypical example is probably your riding and the chairman's riding and my riding and that general area, where the property market is still exceptionally strong. Just how strong it is has been the subject of a number of articles in the last week. Interest rate policy, though, affects the whole country; it is not targeted toward cooling down inflation in Metro Toronto or in the Toronto-Montreal-Ottawa corridor. I wondered to what extent you had been examining other alternative policies that might be more directed to take the heat off the economy in the areas where it is overheating, without damaging the areas of the country that still have a very long way to go until they have recovered.

Maybe I can illustrate by way of an example. We have the bulk of the federal civil service in that triangle, and communications costs and computer costs are falling dramatically. It does not seem to be too terribly sensible to keep the staff in the area where the economy is overheated when there might be indeed legitimate reasons, indeed for promoting economic efficiency, to consider removing some of those jobs from that core area that is overheated to try to take some of the stress off.

While it is a very small department, maybe I can raise the example of the Export Development Corporation. With our free trade initiative now hopefully in hand, we need to devote a lot of attention to concentrate on expanding Pacific Rim and south Asian trade, and trade with Africa and Europe—all of which suggests that we should be concentrating on Vancouver as a centre of export for the Pacific Rim, and possibly Montreal and Halifax as centres of export towards Europe and Africa. Yet the jobs are concentrated in Metro Toronto when the exports from Ontario tend to move down to the States, where they do not require export financing.

So I wondered whether an alternative way of distributing the national prosperity might be to look at government departments that for economic reasons might reasonably be relocated in areas where in fact they make more sense. One could think of mining and other areas that might be distributed as a method of redistributing the national wealth. The Department of Energy, for example, might be largely relocated into Alberta, rather than keeping everything concentrated in that central triangle. Might that not be an effective way of easing the pressures on the overheated triangle of Toronto-Montreal-Ottawa without the broad-brush approach of pushing up interest rates, which tends to dampen the recovery in the areas that have recovered the least?

Mr. Wilson (Etobicoke Centre): It is an interesting question. We have moved some government activities outside of the triangle you referred to. I think of one I visited quite recently, the mapping division of Energy,

[Traduction]

surchauffe. Je suppose que la situation la plus frappante se trouve dans votre circonscription, celle du président et la mienne, où le marché de l'immobilier reste exceptionnellement soutenu. La semaine dernière il y a eu un certain nombre d'articles qui soulignaient la fermeté de ce marché. Mais la politique en matière de taux d'intérêt a un effet général sur tout le pays, elle n'a pas pour objet le ralentissement de l'inflation dans le Toronto métropolitain ou le corridor Toronto-Montréal-Ottawa. Jusqu'à quel point avez-vous examiné d'autres solutions destinées à faire baisser de quelques degrés la surchauffe de l'économie dans certaines régions sans porter atteinte à ces régions, qui ont encore beaucoup à faire avant que le redressement se fasse?

Je pourrais peut-être vous donner un exemple. Le plus gros de la Fonction publique fédérale se trouve dans ce triangle à un moment où les coûts de l'informatique et des communications connaissent une réduction extraordinaire. Cela ne semble pas très raisonnable de garder des fonctionnaires dans ces régions où il y a cette surchauffe de l'économie quand on pourrait avoir de bonnes raisons, y compris l'efficacité économique, de déplacer certains de ces emplois pour faire diminuer la pression.

Même si c'est un petit organisme, je pourrais peut-être mentionner la Société pour l'expansion des exportations. Étant donné les bonnes perspectives de notre initiative de libre-échange, nous devons faire de sérieux efforts pour augmenter le commerce avec les pays du bassin du Pacifique et de l'Asie du sud et aussi avec l'Afrique et l'Europe. On pourrait choisir Vancouver comme centre d'exportation pour les pays du bassin du Pacifique, et Montréal et Halifax comme centre d'exportation vers l'Europe et l'Afrique. Pourtant, ces emplois se trouvent concentrés dans le Toronto métropolitain d'où les exportations ont tendance à se diriger vers les États-Unis, marché pour lequel il n'est pas nécessaire d'avoir un financement à l'exportation.

Une autre façon de mieux répartir la prospérité nationale serait peut-être de relocaliser certains ministères du gouvernement en fonction de certains critères économiques. Le secteur des mines et d'autres domaines se prêteraient peut-être à cette approche. On pourrait décider d'installer le plus gros du ministère de l'Énergie en Alberta, plutôt que de tout concentrer dans le triangle central. Ne pourrait-on ainsi alléger les pressions économiques sur le triangle Toronto-Montréal-Ottawa sans faire monter partout les taux d'intérêt, ce qui donnerait un coup de frein à la reprise dans les régions où elle n'est pas encore bien établie?

M. Wilson (Etobicoke-Centre): C'est une question intéressante. Nous avons déplacé certaines activités du gouvernement du triangle que vous mentionnez. Je songe à l'un de ces services que j'ai visité tout dernièrement, la

[Text]

Mines and Resources in Sherbrooke. That was undertaken quite recently.

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I cannot comment, for obvious reasons, on the specific example you have referred to. That question should be put to Ms Carney or the president of EDC himself rather than to me.

An effort is under way on the part of the government to direct regional policy more out of the regions of the country. ACOA and WDO, the Western Diversification Office, have specifically resulted in the focus of decision-making moving outside of Ottawa into Moncton and Calgary, with a movement of some people as well. These things are happening.

There is another side to it, that a move of the magnitude that would have an impact on the inflation rate would be costly. So you have an offset there, at least in the short term, in the impact on the deficit. So these are other factors that have to be taken into account. I hear what you say and certainly will keep it in mind.

Mr. Cassidy: Mr. Minister, when the Finance Committee recommended a minimum margin tax, why did you choose instead to have an investment income tax on the insurers and a capital tax on the banks? With the recent changes, which apparently have cost substantially in terms of revenue from the investment income tax, in effect you have wound up with very much limited revenues at the same time as the insurers, who had accepted the concept of the minimum margin tax, are still very upset over the form of tax that has been chosen. Perhaps you could explain this change of stance on the part of your government. Why did you change and why did you take this tax, which is neither achieving revenues nor making the industry particularly happy, and which has resulted in a good deal less alleviation of some of the other problems in the tax reform from what could have been achieved with the recommendations of this committee?

Mr. Wilson (Etobicoke Centre): I do not think the government has changed its stance.

Mr. Cassidy: The government rejected the proposal—

Mr. Wilson (Etobicoke Centre): No, the government did not change its stance.

Mr. Cassidy: Why did you reject the proposals we made, which were offered in a constructive way, which were done within the context of neutrality, and which would have permitted a good deal more readjustment of the initial tax package to offset some of the unfair aspects

[Translation]

division de la cartographie du ministère de l'Énergie, des Mines et des Ressources à Sherbrooke. C'est quelque chose de très récent.

Pour des raisons évidentes, je ne peux rien dire à propos de cet exemple précis que vous venez de me citer. Vous devriez poser cette question soit à M^{me} Carney, soit au président de la Société de développement des exportations lui-même plutôt qu'à moi.

Le gouvernement fait des efforts pour qu'on s'occupe, au niveau régional, des politiques régionales du pays. L'agence des perspectives de l'Atlantique et le BEO, le Bureau de l'économie de l'Ouest, en sont précisément la preuve car les centres régionaux sont partis d'Ottawa pour aller vers Moncton et Calgary, sans oublier les gens qui ont déménagé avec les postes. Il se passe quand même des choses.

Il y a un autre côté à tout cela, c'est-à-dire qu'un déménagement d'une certaine importance qui aurait quand même des répercussions sur le taux d'inflation coûterait quand même très cher. Il y a donc un revers à cette médaille dont il faut tenir compte, du moins à court terme, à cause des répercussions sur le déficit. Il y a donc ces autres facteurs dont il faut tenir compte. J'ai bien entendu ce que vous avez dit et j'en tiendrai compte.

M. Cassidy: Monsieur le ministre, quand le Comité des finances a recommandé l'imposition d'un impôt minimum marginal, pourquoi, au lieu de cette solution, avez-vous choisi un impôt sur le revenu d'investissement pour les assureurs et un impôt sur le capital pour les banques? Avec les modifications récentes, qui, selon toute apparence, ont coûté énormément cher au niveau des revenus qu'on pouvait tirer de l'impôt sur le revenu d'investissement, vous tirez quand même beaucoup moins de revenus de ces mêmes assureurs, qui avaient accepté l'idée d'une imposition marginale minimum, mais qui ne sont pas heureux du genre d'impôt qui a été choisi. Peut-être pourriez-vous expliquer ce changement de position de la part de votre gouvernement. Pourquoi avez-vous changé d'idée et pourquoi avez-vous pris cette décision qui ne rapporte pas les revenus escomptés et qui ne fait pas précisément le bonheur de l'industrie, et qui ne pallie pas non plus certains des autres problèmes causés par cette réforme fiscale, mais qu'on aurait pu résoudre en suivant les recommandations de notre Comité.

M. Wilson (Etobicoke-Centre): Je ne crois pas que le gouvernement ait changé d'idée.

M. Cassidy: Le gouvernement a rejeté la proposition. . .

M. Wilson (Etobicoke-Centre): Non, le gouvernement n'a pas changé d'idée.

M. Cassidy: Pourquoi avez-vous rejeté les propositions que nous avons faites, que nous avons offertes dans un esprit tout à fait constructif, qui étaient conçues dans un contexte de neutralité et qui auraient permis beaucoup plus de réajustement aux propositions fiscales initiales

[Texte]

that were particularly hard on people on modest incomes?

Mr. Wilson (Etobicoke Centre): I am sorry—

Mr. Cassidy: We made a number of proposals within the overall context of neutrality, but they depended, of course, on a source of revenue, and we indicated that revenue was available from financial institutions. My question is why did you either ignore or reject the proposals made?

Mr. Wilson (Etobicoke Centre): The tax reform will result in a substantial increase in revenues from financial institutions, including the life insurance companies. That has always been a fundamental objective of tax reform, and I believe we have fulfilled that objective with the proposals we have made.

I do not want to get into a lengthy debate with you, but I think to categorize the life insurance industry as being... I forget exactly how you expressed it—

Mr. Cassidy: They tend to be uncomfortable—

Mr. Wilson (Etobicoke Centre): I do not think they accepted an alternative minimum margin tax.

Mr. de Jong: They did in front of this committee.

Mr. Wilson (Etobicoke Centre): They certainly did not in my discussions with them.

Let us just zero in on the proposal we have followed through on, the investment income tax. I wanted to ensure that we have a stable tax system for the financial service sector. That meant it was important that we have a tax on the investment build-up, the savings build-up of life insurance policies. This was proposed in the June paper and we studied carefully the four points that were made by the committee's report, and we addressed those points in the structuring of the tax. I think there is agreement between the life insurance industry and the government that those particular points, the four points that were made in the committee's report, have been addressed.

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The revenue impact is essentially unchanged because of the fact that we have levied the tax, the full 15% right off the bat instead of phasing it in, together with certain transitional adjustments. The revenue impact has hardly changed for the first four years. There is a reduction in revenues in the fifth year, but I think the point here is that we do have a tax which is acceptable to the industry, the structure is acceptable, so that we have a stable system.

[Traduction]

afin de compenser certains aspects inéquitables qui frappaient assez durement les gens à modestes revenus?

M. Wilson (Etobicoke-Centre): Je suis désolé. . .

M. Cassidy: Nous avons fait un certain nombre de propositions dans le contexte global de la neutralité mais, évidemment, elles dépendaient d'une source de revenu et nous avons précisé qu'on pouvait aller chercher ces revenus chez les institutions financières. Je vous pose donc la question: pourquoi avez-vous soit ignoré soit rejeté les propositions que nous avons faites à cet égard?

M. Wilson (Etobicoke-Centre): La réforme fiscale aura pour aboutissement une augmentation substantielle au niveau des revenus tirés des institutions financières, y compris les sociétés d'assurance-vie. Cela a toujours été un des objectifs fondamentaux de la réforme fiscale et je crois que nous avons atteint cet objectif grâce à ce que nous proposons.

Je ne tiens pas à m'embarquer dans un long débat avec vous, mais je crois que de dire que l'industrie de l'assurance-vie est... J'oublie les termes exacts dont vous vous êtes servi. . .

M. Cassidy: Ils ont tendance à se sentir gênés. . .

M. Wilson (Etobicoke-Centre): Je ne crois pas que ces sociétés aient accepté, comme solution de rechange, un impôt marginal minimum.

M. de Jong: Elles l'ont pourtant fait devant notre Comité.

M. Wilson (Etobicoke-Centre): Ces sociétés ne l'ont certainement pas fait pendant les entretiens qu'elles ont eu avec moi.

Occupons-nous plutôt de la solution que nous avons décidé d'adopter, soit l'impôt sur le revenu d'investissement. Je voulais m'assurer d'avoir un système d'imposition stable pour le secteur des services financiers. Il était donc important d'avoir un impôt sur le cumul des investissements, le cumul de l'épargne réalisée grâce aux polices d'assurance-vie. Cela fut proposé dans le document de juin et nous avons étudié de très près les quatre points soulevés dans le rapport du Comité et nous en avons tenu compte dans la structure de cet impôt. Je crois que l'industrie de l'assurance-vie et le gouvernement comprennent bien que les quatre points précis soulevés dans le rapport du Comité ont trouvé réponse.

Les répercussions de ces mesures sur les revenus, essentiellement, n'en sont pas changées parce que nous avons imposé cette taxe, les 15 p. 100, dès le départ plutôt que progressivement et assortie de certaines mesures de transition. Quant aux répercussions au niveau des revenus, il n'y a presque pas eu de changement pour les quatre premières années. Il y a une diminution de revenus pour la cinquième année, mais je crois qu'il ne faut pas oublier que nous avons quand même une taxe acceptable pour l'industrie; la structure est acceptable, et nous avons donc un système stable.

[Text]

I think if you go back to the 1970s, the reason why the investment income tax was removed was because there was instability between the life insurance industry and other participants in the financial service sector. Because of financial institution reform—Tom Hockin's proposal of December 1986—it is even more important that we have stability because of the common powers that the different participants in the sector have. That is why we have proceeded with this, and rather than do a minimum tax which by its nature can be arbitrary and not really directed at the fundamental causes of taxes not being paid, we chose the approach of addressing the specific causes. We have accepted some of the recommendations of this committee in shoring up the system so that tax will be paid by people in the financial services sector.

Mr. Cassidy: I guess I am puzzled, Mr. Minister. The proposals came forward on an all-party basis, which would have allowed for a significant amount of revenue from the financial sector and on an equitable basis between the different actors in the financial sector. Instead you chose to go back to proposals that were in their original form not acceptable or fair, and you have achieved fairness and stability by reducing your revenues. It seems to me that is the upshot of it. I think that as my friend Mr. de Jong suggests, we need to have another go at this. But that is the impression you have left with us, and with me—that in the end, if you back away enough from these tax changes, of course you will get some kind of a truce with the industry.

However, it gets back to the problem we faced before, which is that neither the insurers nor the banks, I believe, were paying a reasonable share in terms of tax revenues. And if it is correct that these changes will save up to \$60 million per annum to the insurers, then we are getting the same problem with life insurers as well.

Mr. Wilson (Etobicoke Centre): Then let us be very clear that the financial services sector, including the life insurance industries, will be paying significant revenues, significant taxes under tax reform. It is a fundamental change from the position they were in prior to tax reform, and I think this point should not be lost sight of.

[Translation]

Je crois que si vous retournez à l'époque de 1970, on a fait disparaître l'impôt sur le revenu d'investissement parce qu'il y avait un certain déséquilibre entre l'industrie de l'assurance-vie et les autres intervenants du secteur des services financiers. À cause de la réforme aux institutions financières, la proposition de décembre 1986 de Tom Hockin, il est encore plus important aujourd'hui que nous connaissions la stabilité, à cause des pouvoirs communs que détiennent les divers intervenants dans le secteur. C'est pour cela que nous avons agi de cette façon et plutôt que d'imposer une taxe minimum qui, par sa nature même, peut être arbitraire et ne vient pas nécessairement corriger la raison réelle et fondamentale pour laquelle on ne paie pas d'impôt, c'est pour cela, dis-je que nous avons choisi d'attaquer les causes précises du problème. Nous avons accepté certaines des recommandations de votre Comité pour renforcer le système afin que l'impôt soit payé par les gens du secteur des services financiers.

M. Cassidy: Monsieur le ministre, tout cela m'intrigue. Les propositions ont été avancées par tous les partis ensemble, elles auraient permis de tirer des revenus importants du secteur financier, et cela se serait fait équitablement entre les divers intervenants de ce secteur financier. Au lieu que de cela, vous choisissiez de ramener des propositions qui, dans leur forme première, n'étaient ni acceptables ni équitables, et vous en êtes arrivé à nous présenter une situation équitable et stable en diminuant vos revenus. Il me semble que c'est là le fin mot de l'histoire. Je crois, comme le dit mon ami M. de Jong, qu'il nous faut étudier de nouveau la chose. Mais l'impression que vous nous laissez ici, chez nous tous, et chez moi... écoutez, au bout du compte, si vous désavouez suffisamment ces impôts, de toute évidence, l'industrie vous accordera bien un cessez-le-feu.

Cela nous ramène cependant aux problèmes auxquels nous devons faire face tout à l'heure, c'est-à-dire que ni les assureurs ni les banques, me semble-t-il, n'assumaient leur juste part du fardeau fiscal. Et s'il est exact que ces modifications permettront aux assureurs de réaliser des économies de 60 millions de dollars par année, alors nous revenons au même problème avec les assureurs-vie aussi.

M. Wilson (Etobicoke-Centre): Disons donc alors très clairement que le secteur des services financiers, y compris l'industrie de l'assurance-vie, paieront des impôts d'importance en vertu de la réforme fiscale. C'est un changement fondamental par rapport à ce qui se produisait avant la réforme fiscale, et je crois qu'il ne faut surtout pas oublier cela.

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The second point I make is this. You referred to fair taxation. One of the things I wanted to make sure of in the establishment of the technical elements of this investment income tax with the life insurance industry is that it be levied in a way that is fair to the different companies in the industry. The tax rate is 15%; that is unchanged. We wanted to ensure, though, that the tax was

Deuxièmement, vous avez parlé d'imposition équitable. Au niveau des éléments techniques de cet impôt sur les revenus d'investissement, je voulais m'assurer que l'industrie de l'assurance-vie serait imposée de façon équitable pour les diverses sociétés qui la composent. Le taux demeure à 15 p. 100, sans modification. Nous voulions cependant nous assurer que la taxe était imposée

[Texte]

levied in a way that was equitable as between different companies that have a different business mix. That entailed some technical changes, and those changes have been made.

We also were sensitive to the comments that the tax should have a greater impact on new business written as opposed to life insurance policies that were outstanding. So we made some adjustments there to ensure a more equitable balance in that regard.

I think these technical changes have been accepted by the industry. I am not saying for a minute that the industry is agreeable or happy to have this investment income tax; but I think that recognizing that the tax was going to be levied, they believe the technical changes that have been made are reasonable and have made the impact of the tax far more equitable.

Mr. Cassidy: Do you agree, Mr. Minister, that the effect of the changes will be to reduce the burden of the tax by about \$60 million per annum when fully implemented, as estimated by the industry?

Mr. Wilson (Etobicoke Centre): It is in that order of magnitude in the fifth year, but as I indicated earlier, the revenues the government receives certainly in the first three years—and it will not be too far off in the fourth—will be essentially the same as what was indicated in the earlier proposal. But if you were to follow your basic objectives, Mr. Cassidy, I think you would agree it is important that we levy a tax in an equitable way, because if it is not levied in an equitable way there will be continuing pressure to have that tax changed, and therefore you have an unstable system. I think the important thing we should all strive for in tax reform is greater stability in the system so we do not have to make as many changes.

The Chairman: Mr. Minister, thank you very much for coming. We will report the bill tomorrow.

The meeting is adjourned.

[Traduction]

de façon à ce que ce soit équitable envers ces diverses sociétés, qui vendent toutes un mélange de produits différent. Tout cela a entraîné certaines modifications, qui ont été effectuées.

Nous avons aussi été sensibilisés à d'autres propos, soit que la taxe devrait être plus lourde au niveau des affaires réalisées par opposition aux polices en cours. Nous avons donc fait certaines modifications à ce niveau pour assurer un meilleur équilibre à cet égard.

Je crois que ces modifications techniques ont été acceptées par l'industrie. Je ne prétends pas du tout que l'industrie soit heureuse ou qu'elle jubile à l'idée d'avoir à payer un impôt sur le revenu d'investissement; mais je crois que, comprenant fort bien que la taxe allait être imposée, elle croit que les modifications techniques apportées sont raisonnables et que les répercussions, au niveau de la taxe, seront beaucoup plus équitables.

M. Cassidy: Monsieur le ministre, n'êtes-vous pas d'avis que le résultat net de tout cela sera de diminuer le fardeau fiscal d'environ 60 millions de dollars par année, quand tout aura été mis en place, comme le prétend l'industrie elle-même?

M. Wilson (Etobicoke-Centre): Cela revient à quelque chose de cet ordre pendant la cinquième année, mais comme je l'ai dit plus tôt, les revenus perçus par le gouvernement pendant les trois premières années, en tout cas, et ce ne sera pas tellement différent pendant la quatrième, essentiellement, seront à peu près ce que nous avons avancé dans la proposition ultérieure. Mais même si vous deviez essayer de réaliser vos objectifs fondamentaux, monsieur Cassidy, je crois que vous pourriez dire avec moi qu'il est important d'imposer cette taxe de façon équitable, car si la taxe n'est pas imposée équitablement, on continuera de faire des pressions sur nous pour faire changer cet impôt, ce qui nous donnera un système instable. Je crois que l'important, l'objectif que nous devrions tous chercher à atteindre au niveau de la réforme fiscale, c'est la stabilité accrue du système de façon à ce que nous n'ayons plus à faire autant de changements.

Le président: Monsieur le ministre, merci d'être venu ce soir. Nous ferons rapport du projet de loi demain.

La séance est levée.



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WITNESS

From the Department of Finance:

David Dodge, Senior Assistant Deputy Minister, Tax
Policy and Legislation Branch.

TÉMOIN

Du ministère des Finances:

David Dodge, sous-ministre adjoint principal,
Direction de la politique et de la législation de
l'impôt.

HOUSE OF COMMONS

Issue No. 142

Tuesday, March 8, 1988

Chairman: Don Blenkarn

CHAMBRE DES COMMUNES

Fascicule n° 142

Le mardi 8 mars 1988

Président: Don Blenkarn

*Minutes of Proceedings and Evidence of the
Standing Committee on*

*Procès-verbaux et témoignages du Comité
permanent des*

Finance and Economic Affairs

Finances et des affaires économiques

RESPECTING:

Main Estimates 1988-89: Vote 35 under
FINANCE—Office of the Superintendent of
Financial Institutions

CONCERNANT:

Budget des dépenses principal 1988-1989: Crédit 35
sous la rubrique FINANCES—Bureau du
Surintendant des institutions financières

WITNESSES:

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TÉMOINS:

(Voir à l'endos)



Second Session of the Thirty-third Parliament,
1986-87-88

Deuxième session de la trente-troisième législature,
1986-1987-1988

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(Quorum 7)

Le greffier du Comité
Marie Carrière

MINUTES OF PROCEEDINGS

TUESDAY, MARCH 8, 1988

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[Text]

The Standing Committee on Finance and Economic Affairs met at 3:39 o'clock p.m. this day, in Room 209 (West Block), the Chairman, Don Blenkarn, presiding.

Members of the Committee present: Don Blenkarn, Simon de Jong, Murray Dorin, W. Paul McCrossan, Aideen Nicholson and Norman Warner.

In attendance: From the Committee's Research Staff: H. Bert Waslander, Research Director.

Witnesses: From the Office of the Superintendent of Financial Institutions: R.M. Hammond, Deputy Superintendent, Insurance and Pensions Sector; R.M. Emond, Executive Director, Management Services Sector; Suzanne Labarge, Deputy Superintendent, Regulatory Policy, Planning and Resources Sector; Walter Riese, Chief Actuary.

The Committee resumed consideration of its Order of Reference dated February 23, 1988 in relation to the Main Estimates for the fiscal year ending March 31, 1989. (*See Minutes of Proceedings and Evidence, Wednesday, March 2, 1988, Issue No. 140.*)

By unanimous consent, the Chairman called Vote 35 under FINANCE.

The witnesses answered questions.

At 5:15 o'clock p.m., the Committee adjourned to the call of the Chair.

Marie Carrière
Clerk of the Committee

PROCÈS-VERBAL

LE MARDI 8 MARS 1988

(214)

[Traduction]

Le Comité permanent des finances et des affaires économiques se réunit aujourd'hui à 15 h 39, dans la pièce 209 de l'Édifice de l'ouest, sous la présidence de Don Blenkarn, (*président*).

Membres du Comité présents: Don Blenkarn, Simon de Jong, Murray Dorin, W. Paul McCrossan, Aideen Nicholson, Norman Warner.

Aussi présent: Du personnel de recherche du Comité: H. Bert Waslander, directeur de la recherche.

Témoins: Du bureau du Surintendant des institutions financières: R.M. Hammond, surintendant adjoint, Secteur de l'assurance et des régimes de pensions; R.M. Emond, directeur exécutif, Secteur des services de gestion; Suzanne Labarge, surintendant adjoint, Secteur de la politique de réglementation, de la planification et des ressources; Walter Riese, actuaire en chef.

Le Comité examine son ordre de renvoi du 23 février 1988 en ce qui a trait au Budget des dépenses portant sur l'exercice financier se terminant le 31 mars 1989. (*Voir Procès-verbaux et témoignages du mercredi 2 mars 1988, fascicule n° 140.*)

Par consentement unanime, le président met en délibération le crédit 35 inscrit sous la rubrique FINANCES.

Les témoins répondent aux questions.

À 17 h 15, le Comité s'ajourne jusqu'à nouvelle convocation du président.

Le greffier du Comité
Marie Carrière

EVIDENCE

[Recorded by Electronic Apparatus]

[Texte]

Tuesday, March 8, 1988

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The Chairman: We are resuming consideration of the estimates of the Office of the Superintendent of Financial Institutions. We have with us today, among others, R.M. Hammond, Deputy Superintendent of Insurance and Pension Sector; Suzanne Labarge, Deputy Superintendent of the Regulatory Policy, Planning and Resources Sector; R.M. Emond, Executive Director; and Ursula Menke. Neville Grant is here from the banking side and the Chief Actuary is Walter Riese.

We were in the process the other day of getting at some matters. Superintendent, you had delivered to us through the clerk a series of early warning signals with respect to how you could determine whether you felt a company needed a real look-see. I do not know whether members have had an opportunity or need an explanation of that. I was wondering if perhaps you could take us through those.

Mr. R.M. Hammond (Deputy Superintendent, Insurance and Pensions Sector, Office of the Superintendent of Financial Institutions): I would be glad to. First of all perhaps I can just explain how they are used. I think the members of the committee realize that the property and casualty insurance companies are required to file statements with us on March 1. So the statements have just arrived.

We immediately take the data from the statements, enter them into the computer, and apply these tests.

• 1540

Then the results of these tests, together with the information we have gathered as a result of our previous inspections, our dealings with the company, our review of the financial statement, are used to plan our examination schedule and to formulate the basis of recommendations to the Minister on renewal of a company's certificate of registry, and indeed, just our general approach to the supervision of the company. For example, I think the committee will remember that Bill C-56 now allows us to require a company to file interim financial statements. This would be used to determine whether or not we should require monthly statements or quarterly statements, etc.

So that explains the general use of these tests.

If we go through the tests, the first two items are a change in net writings or in gross writings. By the way, I

TÉMOIGNAGES

[Enregistrement électronique]

[Traduction]

Le mardi 8 mars 1988

Le président: Nous reprenons l'étude des prévisions budgétaires du Bureau du surintendant des institutions financières. Nous accueillons aujourd'hui, entre autres, M. R.M. Hammond, surintendant adjoint, secteur de l'assurance et des pensions; M^{me} Suzanne Labarge, surintendante adjointe de la politique réglementaire, secteur de la planification et des ressources; M. R.M. Emond, directeur exécutif et M^{me} Ursula Menke. Sont aussi présents M. Neville Grant du secteur bancaire et l'actuaire en chef, M. Walter Riese.

L'autre jour, nous commençons à aborder certaines questions. Monsieur le surintendant, par l'entremise du greffier, vous nous avez fait parvenir des renseignements sur le système de prédétection qui vous permet d'établir si une entreprise quelconque avait besoin d'un examen plus approfondi. J'ignore si les députés ont eu l'occasion de se faire expliquer ces documents, ou s'ils en ont besoin. Je me demandais même si vous pourriez nous en donner un aperçu.

M. R.M. Hammond (surintendant adjoint, secteur de l'assurance et des pensions, Bureau du surintendant des institutions financières): Volontiers. D'abord, permettez-moi de vous expliquer comment on se sert de ce système. Les députés ne doivent pas ignorer que les compagnies d'assurances tous risques sont tenues de nous fournir leurs états de compte le 1^{er} mars. Ils viennent donc tout juste d'arriver.

Nous versons immédiatement les données de ces documents dans la banque informatisée et utilisons notre système de prédétection.

Les données ainsi obtenues ainsi que les renseignements recueillis au cours d'inspections précédentes, nos rapports avec l'entreprise et notre réexamen des états financiers nous servent ensuite à planifier notre calendrier d'examen et à formuler certaines recommandations à l'intention du ministre au sujet du renouvellement du certificat de l'entreprise, et à orienter notre attitude générale par rapport à la surveillance de la compagnie. Ainsi par exemple, le comité se rappellera sans doute que le projet de loi C-56 nous autorise maintenant à exiger d'une entreprise qu'elle nous fournisse les états financiers provisoires. Ces renseignements serviront à établir si nous devrions exiger des états financiers mensuels, trimestriels, etc.

Voilà donc pour l'utilisation générale de ces systèmes de prédétection.

Maintenant, de façon plus précise, les deux premiers tests portent sur des variations des primes nettes souscrites

[Texte]

should explain that starting on page 2, we describe the tests in words, and attached to the memo, then, is a sort of mathematical description of the tests. The numbers that are in the long sheets attached to the memo, for example, refer to the data-point entry item in the statement.

The Chairman: You get worried if the range is more than a third up or a third down.

Mr. Hammond: That is right, yes. These indicate what we consider to be the usual ranges, and if we get outside those ranges, then we say they have failed a particular test.

If you want, Mr. Chairman, we can go through the tests.

The Chairman: Let us carry on.

I think you also told me, Mr. Hammond, that all of a sudden the actuarial report of a number of pension plans... you have pension plans dated December 31, 1985, suddenly filed. Can you explain how that happened?

Mr. Hammond: Mr. Chairman, as I indicated at the last meeting, under the new legislation that was passed the chief actuary is required to do reports on the various government superannuation schemes at least once every three years. The legislation stipulates that the chief actuary shall file those reports with a Minister who has been designated by Order in Council, and then that Minister shall, within a period of 30 days thereafter, file those reports.

At the time of our last appearance there had not been a Minister designated by Order in Council. That Order in Council has now been passed. As a result, the actuarial reports were filed with the Minister designated by the Order in Council and they were tabled in the House yesterday.

The Chairman: Who was designated?

Mr. Hammond: For purposes of these reports the President of the Treasury Board was designated as the responsible Minister.

The Chairman: That seems to indicate that perhaps all of a sudden things happened after your last attendance here.

We want to keep everybody in line with the law.

Miss Nicholson: I have some questions arising out of the Auditor General's report and Mr. Hammond's subsequent appearance before the Public Accounts committee. This was all some months ago, and it may be everything I raise has already been dealt with. That would be nice to hear.

You will remember very well the kind of concerns the Auditor General raised. I think you agreed some of them were valid, but you were hoping that with increased staff you would be able really to meet all the concerns. Would you like me to list some of them, or would you rather simply give us a brief progress report?

[Traduction]

ou des primes brutes. Entre parenthèse, à la page 2 et aux pages suivantes, on trouvera une description des tests tandis qu'on trouvera leur transcription mathématique en annexe à la fin. Il s'agit des deux longues feuilles, où les renseignements sont donnés sous forme chiffrée.

Le président: On s'inquiète si l'écart excède plus d'un tiers, que ce soit à la baisse ou à la hausse.

M. Hammond: C'est exact, oui. Les chiffres figurant sur ces longues feuilles représentent les écarts moyens, et si les résultats sont en deça ou au-delà de ces données, alors l'entreprise a échoué l'un des tests.

Si vous voulez, Monsieur le président, nous pouvons les parcourir.

Le président: Poursuivons.

Monsieur Hammond, vous m'avez aussi dit je crois que le rapport actuariel portait sur certains régimes de pension... vous avez bien des régimes de pension en date du 31 décembre 1985. Pouvez-vous nous expliquer comment tout à coup on les a déposés?

M. Hammond: Monsieur le président, comme je l'ai précisé lors de la séance précédente, en vertu de la nouvelle loi, l'actuaire en chef est tenu de présenter des rapports sur les divers régimes de prestations de retraite au moins une fois à tous les trois ans. Il est aussi prévu que l'actuaire en chef communiquera ses rapports au ministre désigné par décret puis que ledit ministre disposera de 30 jours pour à son tour déposer les documents.

La dernière fois que nous avons témoigné, aucun ministre n'avait encore été désigné par décret. Depuis lors, l'arrêté-en-conseil a été émis et les rapports actuariels ont donc été déposés auprès de la personne nommée par décret et subséquemment à la Chambre hier.

Le président: Qui a été désigné?

M. Hammond: C'est le président du Conseil du Trésor.

Le président: Cela veut peut-être dire que les choses ont commencé à bouger depuis votre dernière visite ici.

Nous tenons à ce que tout le monde se conforme à la loi.

Mme Nicholson: J'ai certaines questions à partir du rapport du vérificateur général et du témoignage de M. Hammond devant le Comité des comptes publics. Cela remonte à quelques mois déjà, et il se peut donc que ce que je vais soulever ait déjà été réglé. Ce serait très agréable.

Quoi qu'il en soit, vous vous rappelez sans doute des préoccupations qu'a exprimé le vérificateur général. Je crois que bien que vous ayez convenu que certaines d'entre elles étaient tout à fait fondées, vous espériez que grâce à une augmentation de l'effectif, vous seriez en mesure de régler chacun des points soulevés. Aimerez-

[Text]

Mr. Hammond: Well, perhaps I could give you a progress report, Mr. Chairman. As the members of the committee know, there was some concern expressed by the Auditor General about the supervision of pension plans—the administration of the Pension Benefits Standards Act. The Auditor General, I think, raised a number of points, but was particularly concerned that we were not carrying out on-site inspections of pension plans to the same extent that we do with respect to financial institutions.

As a result of the Auditor General's comments, we engaged the services of Price Waterhouse to do a study. They did a review of our administration of the Pension Benefits Standards Act and in their report they indicated that, while the findings of the Auditor General had some validity, they thought their importance was overstated. Nevertheless they did come up with some very useful recommendations.

In our report on the administration of the Pension Benefits Standards Act, which was tabled in Parliament I am not sure when, we commented in a fair amount of detail on the actions that we are taking to respond to this report.

I think you will notice, if you look at Part III of the estimates, that we have increased the personnel allocated to this work; in particular we are allocating three person-years to the carrying out of inspections of pension plans.

I can go over some of the items that were dealt with in the Price Waterhouse and the Auditor General's report, if you would like me to. On the other hand, if the chairman would prefer, we can just send you a copy of our annual report which deals with these items in detail.

I think the most important concern of the Auditor General was the concern about on-site inspections. The Price Waterhouse report did not suggest that we should be doing full-scale inspections that would compare to the inspections that we carry out for financial institutions; they did suggest a number of special focus examinations. For example, we might go into a number of plans and look at the type of information they provide their members. Are they complying with the provisions of the Pension Benefits Standards Act in providing material to their members? We might go in at another time and look at investments—this sort of thing. They were suggesting a number of across-the-system looks at special items, to wave the flag so to speak; to make sure that the pension

[Translation]

vous que je vous en mentionne quelques uns, ou préféreriez-vous nous faire un bref rapport d'étape?

• 1545

M. Hammond: Eh bien, je pourrais peut-être vous donner un rapport d'étape, monsieur le président. Les membres de votre Comité n'ignorent sans doute pas que le vérificateur général s'est montré préoccupé par la question de la surveillance des régimes de retraite, c'est-à-dire de l'administration de la Loi sur les normes des prestations de pension. Le vérificateur général a mentionné plusieurs choses, mais il était particulièrement préoccupé par le fait que nous n'effectuions pas d'inspection sur le terrain des régimes de pensions, tout au moins pas avec la même fréquence que nous le faisons dans le cas des institutions financières.

À la suite de ces remarques, nous avons donc eu recours aux services de l'entreprise Price Waterhouse pour qu'elle étudie la question. Cette dernière a donc réexaminé notre administration de la Loi sur les normes des prestations de pension, et dans son rapport, est arrivée à la conclusion que bien que les questions soulevées par le vérificateur général étaient fondées, on avait exagéré leur importance. Cela dit, la société nous a présenté des recommandations extrêmement utiles.

Dans notre propre rapport sur l'administration de la Loi sur les normes des prestations de pension, que nous avons déposé je ne sais plus quand devant le Parlement, nous avons donné passablement de précisions sur les mesures que nous avons entreprises pour donner suite au rapport du vérificateur.

Si vous vous reportez à la Partie III des prévisions budgétaires, vous remarquerez sans doute que nous avons augmenté le nombre d'employés affecté à ce travail; de façon plus précise, trois années-personnes sont consacrées aux inspections des régimes de pensions.

Maintenant, si cela vous convient, je puis vous donner une idée du contenu du rapport de la société Price Waterhouse et de celui du vérificateur général. Par ailleurs, si le président le préfère, nous pouvons nous contenter de vous envoyer un exemplaire de notre rapport annuel, où ces questions sont traitées de façon très poussée.

Ce qui a le plus préoccupé le vérificateur général à mon avis est la question des inspections sur les lieux. Le rapport Price Waterhouse ne proposait pas que nous effectuions des inspections en règle comparables à celles que nous faisons dans le cas des institutions financières, mais il nous a proposé de nous concentrer sur des examens plus précis. Ainsi par exemple, nous pourrions voir quels renseignements certains régimes de pensions fournissent à leurs prestataires. Se conforment-ils ainsi aux dispositions de la Loi sur les normes des prestations de pension? Nous pourrions aussi profiter d'une autre occasion pour étudier les investissements, ce genre de chose. On nous a donc proposé d'effectuer des examens ponctuels et circonscrits à certains sujets mais portant sur

[Texte]

plans know that we are there and that we are concerned that pension plans abide by the terms of the legislation. They did not suggest that we should be doing the same sort of full-scale examination for all pension plans.

We do approximately 900 for the financial institutions because of the different nature of the liabilities and the funding arrangements and the fact that most of the plans are defined benefit plans and the employer is there to make up a shortfall if necessary.

We have therefore done a number of things. We have improved our communications with the pensions plans. There was concern that the pension plan sponsors were not fully aware of the requirements of the legislation. We published a reference manual that was fairly widely distributed. We have improved the manuals and the work instruments that our in-house people use. We have done a number of items like that based on the findings of the Auditor General and the report done by Price Waterhouse.

Mr. de Jong: Could you take us through some of your estimates? It was mentioned that a good part of the money that covers the cost is really recovered from the institutions. Indeed, your whole department is supposed to be operated on a cost-recovery basis except to the extent that there is actuarial work done for the government. Is that not right?

• 1550

Mr. R.M. Emond (Executive Director, Management Services Sector, Office of the Superintendent of Financial Institutions): Mr. Chairman, in addition to the actuarial services, which are under appropriation, part of the pensions supervision is in fact funded through appropriation. We recover for our pension supervision approximately 55% of the costs. The rest is in fact funded.

The Chairman: Then of your total budgetary requirement, how much is actually raised from the public or from the institutions and people supervised, and what proportion is really the contribution of the Crown?

Mr. Emond: The contribution of the Crown, Mr. Chairman, is approximately 10% of the costs, again, for the actuarial services work and some of the pension plan supervision. We raise the balance, approximately 90%, through assessments on the financial institutions themselves.

The Chairman: How are those assessments determined?

Mr. Emond: Mr. Chairman, you may recall that in Bill C-42 the Office of the Superintendent of Financial Institutions was provided, in addition to the final assessment mechanism, an interim assessment mechanism. This was designed, as I understand it, to permit the office to collect revenues earlier in the fiscal year to permit better cash management. What we do in practice is determine the costs associated with the direct supervision of the financial institutions by type; in other words the

[Traduction]

l'ensemble des régimes afin de laisser voir aux régimes de pensions que nous sommes là et que nous tenons à ce qu'on respecte la loi. On ne nous a cependant pas recommandé de faire un examen approfondi de tous les régimes.

Nous réexaminons environ 900 institutions financières étant donné la nature diverse des risques et des modes de financement, et le fait que dans la plupart des cas, il s'agit de régimes de retraite à prestations déterminées, en vertu desquels l'employeur doit combler un déficit s'il y a lieu.

Nous avons donc pris certaines initiatives. Ainsi, nous avons amélioré nos communications avec les régimes. Nous nous demandions en effet si leurs administrateurs étaient pleinement au courant des exigences de la loi. Nous avons publié un guide qui a été assez largement diffusé. Nous avons amélioré les instruments de travail écrits et autres dont nous disposions déjà. Nous avons pris d'autres dispositions analogues en fonction du rapport du vérificateur général et de celui de la société Price Waterhouse.

M. de Jong: Pouvez-vous nous donner une idée de vos prévisions budgétaires? Il a été dit qu'une part importante des sommes destinées à éponger vos coûts en fait sont recouvrées à même les institutions. De fait, votre ministère au complet est censé s'autofinancer sauf en ce qui a trait au travail actuariel effectué pour le compte du gouvernement. C'est bien cela?

M. R.M. Emond (directeur exécutif, secteur des services de gestion, Bureau du surintendant des institutions financières): Monsieur le président, un crédit finance partiellement la surveillance des régimes de pensions, et totalement les services actuariels. Enfin, nous recouvrons environ 55 p. 100 des coûts de nos activités de surveillance, et le reste nous est fourni.

Le président: En ce cas, quelle proportion de votre budget total provient du public ou des institutions dont vous effectuez la surveillance, et quelle part des coffres gouvernementaux?

M. Emond: Monsieur le président, la contribution de la Couronne correspond à environ 10 p. 100 des coûts, cela couvre les services actuariels et une part des activités de surveillance. Nous obtenons le reste, soit presque 90 p. 100, en le facturant aux institutions financières elles-mêmes.

Le président: Comment établit-on de telles factures?

M. Emond: Monsieur le président, vous vous rappellerez peut-être que le projet de loi C-42 permettait au surintendant des institutions financières non seulement d'effectuer une évaluation globale mais aussi une évaluation provisoire. Cela devait lui permettre de percevoir des revenus plus tôt au cours de l'année financière, ce afin de mieux gérer ses liquidités. Nous établissons donc les coûts liés à la surveillance directe des institutions, selon leur catégorie; autrement dit, selon

[Text]

banks, the trust companies, the P and C companies, the life companies, etc.

The Chairman: Well, how do you charge, say, a P and C company? How do you determine what its fees ought to be?

Mr. Emond: You would do it *prorata*.

The Chairman: Fine, but *prorata* to what?

Mr. Emond: Based on the premium.

The Chairman: On a P and C company it is its annual premium. Is that correct?

Mr. Hammond: Its net annual premium.

The Chairman: Net annual premium to the company.

Mr. Hammond: For the company.

The Chairman: I see. Does that mean premium they have forgone or they have given away on reinsurance is not their premium?

Mr. Hammond: That is right.

The Chairman: I see. So they pay a fee based on net annual premium.

What about life insurance companies, then, where we are talking not just of the premium but of massive investment amounts of money held, or annuities and so on?

Mr. Hammond: Their assessment also, Mr. Chairman, is based on net premium income.

The Chairman: And money they collect for an annuity. If they get in a hunk of money for an annuity on an RRSP converted prior to the age of 71 to buy an annuity, how do you charge a premium on that?

Mr. Hammond: That shows up as net premium income. It would be reflected in their statement as premium income.

The Chairman: It is premium income in that year.

Mr. Hammond: Yes.

The Chairman: What do you have, then, to cover yourself if at some point they stop selling new policies and stop collecting new premiums? Do you stop supervising them? What do you do?

Mr. Hammond: No, Mr. Chairman, you certainly do not stop supervising them.

The Chairman: I was hoping you did not. But if you are going to charge only on the current income, have you no formula so you have some ongoing charge that reflects the ongoing business that is really the management of large amounts of investment money?

[Translation]

qu'il s'agit de banques, de fiducies, de compagnies d'assurance générale, de compagnies d'assurance-vie, et le reste.

Le président: Eh bien, comment établissez-vous les frais à percevoir, par exemple, d'une compagnie d'assurance générale? Comment assurez-vous cela?

M. Emond: Au *prorata*.

Le président: Fort bien, mais par rapport à quoi?

M. Emond: Par rapport à la prime.

Le président: En ce cas, cela veut dire que dans le cas d'une compagnie d'assurance générale, vous vous fondez sur la prime annuelle. C'est bien cela?

M. Hammond: Oui, sur la prime annuelle nette.

Le président: Sur la prime annuelle nette payée à la compagnie.

M. Hammond: Pour la compagnie.

Le président: Je vois. Est-ce que cela veut dire qu'il faut exclure de cette prime celle à laquelle elle a renoncée ou celle qu'elle a dû payer pour une réassurance?

M. Hammond: C'est exact.

Le président: Je vois. Ses frais correspondent donc à sa prime annuelle nette.

Qu'en est-il maintenant des compagnies d'assurance-vie où il n'est pas question que de primes mais aussi de très importants investissements, comme des rentes et le reste?

M. Hammond: L'évaluation de ces dernières se fonde également sur les revenus de la prime nette.

Le président: Et sur l'argent perçu aux fins des rentes. Si par exemple une compagnie d'assurance-vie reçoit un montant considérable d'argent destiné à être versé sous forme de rentes, à la suite de la transformation d'un REER en rente avant qu'on atteigne 71 ans, comment établit-on les frais à percevoir sur la prime?

M. Hammond: Cela figurera comme revenu tiré de la prime nette, y compris dans l'état financier de l'entreprise même.

Le président: Il s'agit d'un revenu tiré de la prime pour une année donnée.

M. Hammond: Oui.

Le président: Que pouvez-vous faire dans le cas où une entreprise cesserait de vendre de nouvelles polices d'assurance et commencerait à percevoir de nouvelles primes? Est-ce que vous suspendriez vos activités de surveillance? Que faites-vous?

M. Hammond: Non, monsieur le président, on ne met certainement pas fin aux activités de surveillance.

Le président: C'est ce que j'espérais. Cependant, si vous percevez vos frais seulement en fonction des recettes courantes, ne disposez-vous pas d'une formule vous permettant de percevoir quelque chose qui corresponde aux investissements courants très considérables?

[Texte]

Mr. Hammond: In the case of life insurance companies, even though they stopped selling business, there would still likely be some premium income, because life insurance contracts tend to be long term. You are, however, quite right. The annuity business is usually single premium business. Therefore, if a company were concentrating on single premium annuity business and then stopped that, its premium income would drop and, you are quite correct, its assessment would drop.

The Chairman: In view of the fact that life insurance companies are going very heavily into annuities and registered retirement investment funds which they manage, largely single premium and long-term pay-out plans, are really intermediaries in the sense that they borrow the money and in many cases guarantee a fixed rate of return and so on, and in many cases are really acting not much differently from a bank or a trust company, why have you not determined another method of assessing them for their long-term business as opposed to their short-term business?

• 1555

Mr. Hammond: First, I should explain that we keep track of our costs of supervision, so the life insurance industry pays the cost of supervising the life insurance industry. For example, my time would be allocated to the insurance industry, and the method of allocation we talked about is a way of distributing the costs between insurance companies. So, with each type of financial institution, we keep track of the costs involved in supervising that type of financial institution; then the formulas we have just been describing are means of allocating that cost among companies within that industry.

Indeed, we think we do need to look at the method we use for allocating costs between companies, although I might say that the life insurance industry and the property and casualty insurance industry, to my knowledge, have not been complaining about the internal allocation among the companies, within the industry, of our costs. But, indeed, we are looking at the methods of our cost recovery.

For example, we are talking about suggesting or imposing a minimum charge, because, just to get at the point you mentioned, you might have a life insurance company come in here and do business for a time and then stop doing business. But, of course, because it has liabilities here, it still involves some supervisory—

The Chairman: It still has the file it still has to keep invested—

Mr. Hammond: Exactly.

The Chairman: —but it does not sell policies any more and consequently has no income, and you are stuck with supervising that until the cows come home.

[Traduction]

M. Hammond: Dans le cas des compagnies d'assurance-vie, même si elles cessaient de vendre des polices, il leur reviendrait encore vraisemblablement des revenus tirés des primes car les contrats d'assurance-vie portent en général à long terme. Cela dit, vous avez tout à fait raison. Dans le cas des rentes, il n'y a d'habitude qu'une seule prime. En conséquence, si une telle entreprise mettait fin à ses activités, ses revenus tirés de primes baisseraient, ce qui entraînerait donc une diminution de son niveau d'évaluation, comme vous l'avez si justement remarqué.

Le président: Étant donné que les compagnies d'assurance-vie ont très souvent tendance à investir dans des rentes et des régimes enregistrés d'épargne-retraite qu'elles administrent elles-mêmes, des régimes à prime unique et à versement échelonné à long terme, et étant donné qu'elles agissent vraiment à titre d'intermédiaire, en ce sens qu'elles empruntent l'argent et souvent garantissent un rendement fixe et le reste, et que dans bon nombre de cas, elles ont quasiment les mêmes activités que celles des banques ou des fiducies, pourquoi n'avez-vous pas établi une autre méthode d'évaluation de leurs activités à long terme par opposition à leurs activités à court terme?

M. Hammond: Premièrement, je devrais vous dire que nous comptabilisons nos coûts de contrôle, et ce sont les compagnies d'assurance-vie qui paient le contrôle de leur industrie. Par exemple, mon temps est pris en charge par l'industrie des assurances et la répartition des coûts entre compagnies d'assurance se fait selon la méthode que je vous ai expliquée. Ainsi, pour chaque type d'établissement financier, nous en comptabilisons les coûts de contrôle; et nous répartissons ces coûts entre les compagnies de cette industrie et selon les formules que je vous ai exposées.

Effectivement, nous devrions revoir la répartition des coûts entre compagnies, bien que les compagnies d'assurance-vie et les compagnies d'assurance générale ne se soient jamais plaintes, que je sache, de la répartition de nos coûts entre les diverses compagnies. Mais effectivement, nous sommes en train de revoir notre système de recouvrement des frais.

Par exemple, nous envisageons d'imposer une redevance minimum car, pour répondre à la question que vous m'avez posée, une compagnie d'assurance-vie pourrait très bien veiller à s'installer ici pendant un certain temps puis cesser ses activités. Mais comme elle détient un passif, il faut continuer de contrôler. . .

Le président: Mais elle a un dossier qu'elle doit conserver pour maintenir ses placements. . .

M. Hammond: Absolument.

Le président: . . . mais elle ne vend plus de police d'assurance et n'a donc plus de revenus, et vous êtes chargés de tout contrôler indéfiniment.

[Text]

Mr. Hammond: That is right. Yes.

The methods we have just described are the old methods that were embodied in the old Department of Insurance Act and in the Bank Act, and of course they were embodied more or less holus-bolus in the regulations made pursuant to the office bill that created the office, because of the timing problem. But, indeed, we will be looking at the question of assessment.

The Chairman: Bill C-42 and Bill C-56 have been passed, but there are some very extensive further bills to be passed in connection with the financial institutions, which undoubtedly will require more supervision from you. I was wondering if you had taken a look at the kind of supervision those acts will require in terms of how boards of directors act and the like. What have you done with respect to that? Or are you already operating as if the bills were passed?

Mr. Hammond: Not quite, but we indeed have been looking at the provisions of the draft trust and loan legislation. As a matter of fact, we have set up a task force to study the whole issue and to try to make recommendations to the executive committee of the office as to what is going to be necessary in terms of that legislation.

Mr. Emond: The creation of the office legislation did add new challenges, which has forced us to review the whole approach to examination, which is relevant to, for example, the discussion draft on the trust and loan legislation. As we indicated in our Part IIIs, we engaged consultants last summer to provide some advice to the superintendent and we are continuing our studies.

The Chairman: I reviewed partially—I have not yet completed it—a complaint by Mr. Castonguay about the fact that the proposed legislation will totally prohibit double counting of capital. What are you doing in your examinations currently with respect to institutions where the assets of one company become part of the assets of the next company and you really have several levers going at the same time on the same original capital?

Mr. Hammond: The prohibition against double counting of capital is not a new concept. If you look at the existing insurance legislation, for example—property and casualty companies have been able to own other property and casualty companies for some time now—the minimum continuing capital and surplus requirements that are now in place for federally incorporated property and casualty insurance companies are determined in a manner such that the double counting of capital is eliminated. So in fact we have been applying that sort of approach whenever one P and C company owns another P and C company. Similarly, with respect to trust and loan companies, whenever a loan company owns a trust company, or vice versa—

[Translation]

M. Hammond: Vous avez raison, oui.

Le système que vous venez de nous décrire est l'ancien système qui figurait dans l'ancienne Loi sur le département des assurances et dans la Loi sur les banques; il a été incorporé plus ou moins intégralement dans les décrets d'application établis conformément à la loi organique du Bureau, en raison du calendrier. Mais nous reverrons toute cette question d'évaluation.

Le président: Le projet de loi C-42 et C-56 ont été adoptés, mais d'autres projets de loi de grande portée relatifs aux établissements financiers doivent suivre, établissements que vous devrez sans doute contrôler également. Je me demandais si vous vous étiez penchés sur le contrôle que vous devrez y exercer, sur la composition des conseils d'administration prévue par ces lois, etc. Qu'avez-vous fait à ce propos? Ou exercez-vous vos activités comme si ces projets de loi avaient déjà été adoptés?

M. Hammond: Pas tout à fait, mais nous avons effectivement examiné les dispositions que renferme le projet de loi sur les compagnies de fiducie et de prêt. D'ailleurs, nous avons créé un groupe de travail chargé d'étudier toute cette question et de présenter des recommandations à la commission administrative du Bureau sur les mesures que ce texte de loi entraînera.

M. Emond: La loi organique du Bureau a effectivement créé de nouveaux défis qui nous ont poussés à revoir la façon dont nous procédions aux inspections et ce, dans le cadre du projet de loi sur les compagnies de fiducie et de prêt. Comme nous l'avons indiqué dans la partie III de notre budget, l'été dernier, nous avons retenu les services d'experts-conseils qui sont chargés de présenter des avis informés au surintendant et nos propres études se poursuivent.

Le président: J'ai examiné en partie—je n'ai pas encore fini—une lettre de M. Castonguay se plaignant du fait que le projet de loi interdira tout double comptage du capital. Dans le cadre de l'examen des établissements financiers auxquels vous procédez, que faites-vous lorsque les éléments d'actif d'une compagnie deviennent une partie de l'actif d'une autre compagnie et que le capital initial est soumis à diverses emprises?

M. Hammond: Interdire le double comptage du capital n'est pas une idée nouvelle. Si vous lisez la législation régissant les compagnies d'assurance, par exemple—les compagnies d'assurance tous risques peuvent posséder d'autres compagnies d'assurance tous risques depuis un certain temps—le capital et l'excédent minimum que doivent détenir les compagnies d'assurance tous risques réglementées par le gouvernement fédéral sont calculés de manière à éliminer tout double comptage du capital. C'est précisément ce que nous avons fait chaque fois qu'une compagnie d'assurance tous risques a racheté une autre compagnie d'assurance tous risques. De même, si une compagnie de prêt possède une compagnie de fiducie, ou vice-versa. . .

[Texte]

[Traduction]

• 1600

The Chairman: How about a loan company owning an insurance company, or vice versa?

Mr. Hammond: Those rules are not now in the legislation. We have no authority, at the moment, to—

The Chairman: Surely you have enough authority to determine the leverage a trust company has, and to cut its leverage down so dramatically that if it does not comply, in effect it is forced to comply by loss of leverage.

Mr. Hammond: Yes, we do, Mr. Chairman. I think the other thing that is worth noting is that under the existing legislation trust companies and loan companies are not allowed to have insurance companies as subsidiaries.

The Chairman: Insurance companies have trust and loan companies as subsidiaries. Well, I believe we have had that situation, have we not, Mr. Hammond? Do we not indeed have that situation?

Mr. Hammond: We have some life insurance companies that have managed to arrange things such that they have trust companies, but not as direct subsidiaries, because the life insurance legislation also prohibits a life insurance company from owning more than 30% of the shares of a trust company.

The Chairman: Yes, but it does not prevent it from owning two or three life insurance companies which each can own 30% of the trust company.

Mr. Hammond: Well, no. That is not quite true either, Mr. Chairman. Under the existing legislation federally incorporated life insurance companies cannot own other life insurance companies. They can own foreign life companies and there are now no rules to prohibit double counting of capital, but the amount that they can invest in those foreign life companies is very limited. It is only 2% of assets. So I guess the point that I wanted to make is that the principle of preventing the double counting of capital is already embodied in the federal legislation. Certainly as the powers to invest in other types of financial institutions expands, I think we, as supervisors, certainly support the concept of expanding that principle against double counting of capital.

The Chairman: Was Laurentian Group heavily double counting capital?

Mr. Hammond: Well, the two parent companies, the two lead companies in the Laurentian Group are Quebec incorporated companies. There is La Laurentienne, the Mutual Life Insurance Company, which is a Quebec incorporated company, and there is Laurentian General, which is a property and casualty insurance company. They, in turn, have some federal subsidiaries, but we do not have access to the regulatory statements of the the parent company.

Le président: Et une compagnie de prêt qui possède une compagnie d'assurance, ou vice-versa?

M. Hammond: Les règles qui s'y appliquent ne figurent pas encore dans la loi. Pour l'heure, nous n'avons aucun pouvoir. . .

Le président: Mais vous pouvez quand même déterminer le levier financier d'une compagnie de fiducie et le diminuer de telle façon que si elle ne respecte pas les règles établies, elle est en fait obligée de le respecter puisqu'elle aurait perdu ce levier financier.

M. Hammond: Oui, effectivement, monsieur le président. Je crois qu'il convient également de noter que la loi actuelle n'autorise pas les compagnies de fiducie et les compagnies de prêt à posséder des compagnies d'assurance comme filiales.

Le président: Les compagnies d'assurance ont pour filiales des compagnies de fiducie et de prêt. Je crois que cela s'est déjà vu, n'est-ce pas, monsieur Hammond? Cela n'existe-t-il pas?

M. Hammond: Oui, certaines compagnies d'assurance-vie ont réussi à arranger leurs affaires de manière à posséder des compagnies de fiducie, mais pas sous forme de filiales directes, car la législation régissant les compagnies d'assurance-vie interdit également à une compagnie d'assurance-vie de posséder plus de 30 p. 100 des actions d'une compagnie de fiducie.

Le président: Oui, mais cela ne l'empêche pas de posséder deux ou trois compagnies d'assurance-vie qui peuvent toutes trois posséder 30 p. 100 de la compagnie de fiducie.

M. Hammond: Non, monsieur le président, cela n'est pas tout à fait vrai. La loi actuelle interdit aux compagnies d'assurance-vie réglementées par le gouvernement fédéral de posséder d'autres compagnies d'assurance-vie. Elles peuvent posséder des compagnies d'assurance-vie étrangères et aucune règle n'interdit le double comptage du capital, mais le montant qu'elles peuvent investir dans ces compagnies d'assurance-vie étrangères est très limité, et se limite à 2 p. 100 des éléments d'actif. Alors, ce que je voulais vous dire, c'est que la loi fédérale interdit déjà le double comptage du capital. À mesure que les placements dans d'autres types d'établissements financiers se multiplieront, en tant que contrôleurs, nous insisterons pour que cette interdiction demeure.

Le président: Le groupe Laurentienne comptait-il deux fois son capital?

M. Hammond: Les deux sociétés mères du groupe Laurentienne sont des compagnies constituées au Québec. Il y a la Laurentienne, la compagnie d'assurance-vie, compagnie du Québec et la Laurentienne générale, qui est une compagnie d'assurance tous risques. Ces compagnies possèdent des filiales ayant une charte fédérale, mais nous n'avons pas accès aux états réglementaires de la société mère.

[Text]

The Chairman: Do you not work with the Quebec regulator?

Mr. Hammond: We certainly do keep in touch with the Quebec regulator, yes, we do. We exchange information.

The Chairman: Is the Quebec regulator worried about this kind of thing, or does he think it is a good idea to have double counting of capital?

Mr. Hammond: Well, I guess I cannot really speak for the Quebec regulator.

The Chairman: Well, have you had discussions with him about this problem?

Mr. Hammond: We have had discussions about the issue of double counting of capital, but I do not think it is fair for me to ascribe to him certain views. He certainly knows where I stand on the issue.

The Chairman: All right.

Mr. Hammond: As I said earlier, a lot of people seem to think this is a new concept. I just wanted to make it clear that for many years, one P and C company has been able to own another, and the section 103 test that we talk about so often now has rules embodied in that test to prevent the double counting of capital.

• 1605

The Chairman: You have a chart on page 12 of Part III. Superintendent of Financial Institutions is noted. What do you have then? Are you in one of those blocks? Is someone else who is here in one of those blocks? The headings are as follows: Regulatory Policy, Planning and Resources, Deposit Taking Institutions, Insurance and Pensions Sector.

Mr. Hammond: I am in the Insurance and Pensions Sector. Don MacPherson would be the Deputy Superintendent responsible for the Deposit Taking Institutions Sector; Suzanne Labarge would be the Deputy Superintendent responsible for Regulatory Policy, Planning and Resources; and Bob Emond, our Executive Director, is responsible for the Management Services Sector.

The Chairman: I see a lot of budget under yours, \$20 million of \$34 million. We know what you do, to some extent, but what does the Management Services Sector do?

Why is there nearly as much money for Management Services as there is for supervising all of the banks and all of the trust companies that take deposits, plus all the foreign banks and literally billions of assets?

Mr. Hammond: I will ask Mr. Emond to answer that question.

The Chairman: How do you spend \$5 million?

[Translation]

Le président: Ne collaborez-vous pas avec l'organisme de réglementation du Québec?

M. Hammond: Absolument, nous échangeons des renseignements.

Le président: L'organisme de réglementation du Québec s'inquiète-t-il de tout cela, ou estime-t-il que le double comptage du capital est une bonne idée?

M. Hammond: Et bien, j'hésite à parler au nom de l'organisme de réglementation du Québec.

Le président: Mais en avez-vous parlé avec lui?

M. Hammond: Nous avons parlé du double comptage du capital, mais je ne crois pas pouvoir parler en son nom. Il sait très bien ce que j'en pense.

Le président: Bien.

M. Hammond: Comme je l'ai dit toute à l'heure, beaucoup semblent penser que cette idée est une idée nouvelle. Depuis plusieurs années déjà, une compagnie d'assurance tous risques peut en posséder une autre, et l'article 103 dont nous parlons si souvent interdit le double comptage du capital.

Le président: Un tableau figure à la page 12 de la partie III du budget. On y voit le surintendant des institutions financières. Et ensuite? Êtes-vous cités là-dedans? Quelqu'un d'autre ici présent figure-t-il dans ce tableau? Les secteurs sont les suivants: politique de la réglementation, de la planification et des ressources, institutions de dépôts, assurance et pensions.

M. Hammond: Je fais partie du secteur de l'assurance et des pensions. Don MacPherson est le surintendant adjoint responsable du secteur des institutions de dépôts, Suzanne Labarge est surintendante adjointe responsable de la politique de la réglementation, de la planification et des ressources, et Bob Emond est le directeur administratif chargé du secteur des services de gestion.

Le président: Votre budget est impressionnant, 20 millions de dollars sur 34 millions de dollars. Nous savons un peu ce que vous faites, mais que fait le secteur des services de gestion?

Pourquoi le budget du secteur des services de gestion est-il presque aussi important que celui des institutions de dépôts chargées de surveiller toutes les banques et toutes les compagnies de fiducie, ainsi que toutes les banques étrangères, ce qui représente littéralement des milliards de dollars?

M. Hammond: Je vais laisser M. Emond répondre à cette question.

Le président: Comment arrivez-vous à dépenser 5 millions de dollars?

[Texte]

Mr. Emond: First of all, Management Services includes the Office of the Superintendent. Furthermore, it includes a lot of the support activities in relation to what would normally be called common services.

Finance, personnel, administration, systems, what were called special services in the former Department of Insurance, do things like asset analysis. They do the receipt of the annual statements, etc.

The Chairman: I thought the Insurance and Pensions Sector did that. Do they not do that too?

Mr. Emond: No, Mr. Chairman. In fact, what we have done, in terms of structuring the office—

The Chairman: What does Hammond do for his \$18 million?

Mr. Emond: Let me first indicate that one of the factors in our main estimates are the liquidation dollars, all of which happen to be residing in the Insurance and Pensions Sector. The number, in terms of operating dollars, is roughly about \$6 million.

The Chairman: Is that for his losses?

Mr. Hammond: There is about \$12 million in the budget for meeting the administrative expenses involved in carrying out the liquidation.

You will remember that under the insurance legislation there is a provision that, if the Superintendent of Financial Institutions is appointed as liquidator, then the administrative expenses involved in carrying out the liquidation are paid by the office and recovered from the industry.

The objective of course is to preserve the estate of the troubled companies for the benefit of the policyholders, and not have it used up in meeting the 'liquidators' administrative expenses.

The Chairman: Are all of the inspectors in the Insurance and Pensions Sector in your end of this block of payroll or are they part of Management Services?

Mr. Hammond: No, they would be in my block. The persons who go around and do the on-site inspections would be in my block.

The Chairman: Is there a person-year breakdown of those blocks?

Mr. Emond: Mr. Chairman, when the office was granted separate employer status, it was in fact, generally speaking, decontrolled on person-years.

I can give you a head count number, and would be pleased to do so. The best comparison, though, given that most of our money in terms of operating costs are in salary dollars, is to look at the dollar figure.

[Traduction]

M. Emond: Premièrement, le secteur des services de gestion comprend le bureau du surintendant. Il comprend également un grand nombre d'activités de soutien qu'on appelle normalement les services communs.

Ces services regroupent également ce qu'on appelait les services spéciaux dans l'ancien département des Assurances, c'est-à-dire, les finances, le personnel, l'administration, les systèmes informatiques. C'est là où l'on analyse les éléments d'actif, les états annuels, etc.

Le président: Je croyais que c'était le secteur de l'assurance et des pensions qui en était chargé?

M. Emond: Non, monsieur le président. En fait, nous avons organisé le bureau de manière. . .

Le président: Que fait M. Hammond avec ses 18 millions de dollars?

M. Emond: Le secteur de l'assurance et des pensions comprend le service de liquidation qui est important. Par exemple, le budget d'exploitation de ce secteur n'est que de 6 millions de dollars.

Le président: Pour ses pertes?

M. Hammond: Nous avons prévu environ 12 millions de dollars pour couvrir les dépenses administratives qu'entraînent les liquidations.

Si le surintendant des institutions financières est nommé liquidateur, la loi prévoit que les dépenses administratives qu'entraînent ces liquidations sont payées par le Bureau et remboursées ensuite par l'industrie.

Le but recherché est évidemment de préserver la succession des sociétés en difficulté pour le compte des détenteurs de polices et que cet argent ne serve pas à payer les dépenses administratives des liquidateurs.

Le président: Tous les inspecteurs du secteur de l'assurance et des pensions sont-ils rémunérés par vous ou par le secteur des services de gestion?

M. Hammond: Non, par moi. Les inspecteurs font partie de mon service.

Le président: Quel est le nombre d'années-personnes pour chacun de ces secteurs?

M. Emond: Monsieur le président, lorsque le bureau a reçu son statut d'employeur distinct, ses années-personnes n'ont plus été assujetties au contrôle du Conseil du Trésor.

Je peux vous dire combien le Bureau du surintendant des institutions financières compte d'employés. La meilleure façon de procéder, étant donné que notre budget d'exploitation se compose surtout des salaires versés, serait d'examiner le montant en dollars.

[Text]

However, the 1988-89 projected head count for the office—in the chart it is designated as Regulatory Policy, Planning and Resources—

The Chairman: Where is that chart?

Mr. Emond: It is on page 12. The head count for the office would be 55; Deposit Taking Institutions, 80; Insurance and Pensions, 138.

The Chairman: Regulatory is 55.

• 1610

Mr. Emond: For Management Services, it is 74; and for the Office of the Superintendent it is 4. That totals—

The Chairman: The Superintendent's Office, where is that hidden?

Mr. Emond: The dollars are in the Management Services Sector but there are four people in support—

The Chairman: Oh, there are four people in the Superintendent's Office up here.

Mr. Emond: Yes.

The Chairman: Head office runs with 4, but you have 74.

Mr. Emond: Again, I would just underline the fact that the Office of the Superintendent, as a separate employer, is decontrolled in the context of person-years, except for those functions that operate under an appropriation. This was specifically designed to permit the office to have flexibility, to respond to the deficiencies noted in relation to the commission review conducted by Justice Estey and, as I understand it, the recommendations of this committee.

The Chairman: Yes. In other words, there is no table of person-years in this. . . They must be somewhere, are they not?

Mr. Emond: The closest you will find, Mr. Chairman, is if you go to page 21.

The Chairman: Oh, yes. We have 30 management people, 25 scientific people—

Mr. Emond: Actuaries.

The Chairman: —and 209 of these foreign service people. Who are the foreign service people we have?

Mr. Emond: The bulk of those people are commerce officers, inspectors, examiners, analysts. This is the classification that is used at the present time.

The Chairman: I see. It is certainly a few more people than you had at one time, when we started talking to Mr. Hammond back in 1979 or 1980.

Mr. Hammond: Yes, Mr. Chairman.

[Translation]

Cependant, pour l'année 1988-1989, les employés du Bureau—le tableau les divise en secteurs, le secteur de la politique de la réglementation, de la planification des ressources. . .

Le président: Où se trouve ce tableau?

M. Emond: Page 12. Il y a 55 employés dans ce secteur, 80 employés dans le secteur des institutions de dépôts, 138 employés dans le secteur de l'assurance et des pensions.

Le président: Vous dites que le secteur de la réglementation compte 55 employés.

M. Emond: Les services de gestion comptent 74 employés et le Bureau du surintendant, 4; ce qui donne un total. . .

Le président: Le Bureau du surintendant? Où se cache-t-il?

M. Emond: Les montants figurent dans le Secteur des services de gestion, mais il y a quatre employés de soutien. . .

Le président: Le Bureau du surintendant compte donc quatre personnes.

M. Emond: Oui.

Le président: Le siège social a 4 employés et vous en avez 74.

M. Emond: Encore une fois, je souligne que le Bureau du surintendant, en tant qu'employeur distinct, n'est pas assujéti au contrôle des années-personnes, sauf pour les fonctions qui relèvent d'un crédit. Cette dérogation vise expressément à donner au Bureau la latitude nécessaire pour corriger les lacunes observées au cours de l'examen de la commission dirigée par le juge Estey et, si je comprends bien, pour tenir compte des recommandations de ce comité.

Le président: Bien. Autrement dit, il n'y a pas de tableau d'années-personnes dans ce. . . Ils doivent se trouver quelque part, non?

M. Emond: Tout ce que vous trouverez, monsieur le président, figure à la page 21.

Le président: Ah, oui. Il y a 30 membres de la gestion, 25 membres de la catégorie scientifique. . .

M. Emond: Des actuaires.

Le président: . . . et 209 employés du service extérieur. Qui sont-ils?

M. Emond: La majorité sont des agents commerciaux, des inspecteurs, des examinateurs, des analystes. Voilà la classification employée actuellement.

Le président: Je vois. Ils sont certainement un peu plus nombreux que quand nous avons commencé à parler à M. Hammond en 1979 ou en 1980.

M. Hammond: Oui, monsieur le président.

[Texte]

Mr. Emond: Mr. Chairman, just in closing off that item, perhaps I might mention the fact that the numbers, as I am sure you and members of the committee will appreciate, are the best guesses within terms of the office. Our main estimates were put together based on a projection of our needs. In the event that we do not need to use 351 people to carry out our responsibilities, we certainly would not have 351.

The Chairman: Okay. Going at this from another point of view, one of the major concerns of this committee over the years has been the concentration of this operation in Ottawa when there was only one life insurance company with its head office in Ottawa, no P and C companies and not a single bank except the Bank of Canada, which you do not bother inspecting.

Where are these people? Are all of your people in Ottawa? Or are they around the countryside with the other...?

Mr. Emond: Mr. Chairman, I do have a few people in Toronto. Let me mention that the office is committed in 1988 and 1989... in fact we have started the process of building our Toronto presence.

The Chairman: All right. You have an office in Toronto. Where is that office in Toronto?

Mr. Emond: In fact, we have two offices in Toronto in terms of locations. One at 155 University, who are the former employees of the Department of Insurance. There are some 54 employees there. We have the offices at 150 York, which include Mr. McKenzie, the Superintendent's Office, and at the present time a part of the trust and loan division from 155 and a few people who have banking backgrounds.

Our strategy—

The Chairman: How many people do you have at York Street?

Mr. Emond: We have six on the bank side, including the superintendent.

The Chairman: Yes. Are there just six?

Mr. Emond: At the present time. Our plan is to move Toronto from a current strength level of 60 to a current level of 90 by the end of the 1988-89 fiscal year. In addition to that, our plan is to run our deposit-taking examinations out of Toronto. We will be moving in the fall to 1 Front Street where we will be all together.

The Chairman: So you are going to have a new space at 1 Front Street.

Mr. Emond: Yes, sir. Public Works is working on that. Furthermore, you will recall that the appointments to the office were made under the Public Service Employment Act.

[Traduction]

M. Emond: Monsieur le président, avant de passer à un autre sujet, j'aimerais mentionner que les chiffres, comme vous et les membres du Comité le comprendrez, sont les meilleures estimations auxquelles nous sommes arrivés au Bureau. Notre budget des dépenses a été établi en fonction d'une projection de nos besoins. Si nous n'avons pas besoin de 351 personnes pour assumer nos responsabilités, nous n'en aurons certainement pas 351.

Le président: D'accord. Envisageant la question d'un autre point de vue, le Comité s'est grandement inquiété au fil des années de la concentration des opérations à Ottawa quand une seule compagnie d'assurance-vie a son siège social à Ottawa, qu'il n'y a aucune compagnie d'assurance générale et pas une seule banque, sauf la Banque du Canada, que vous ne vous donnez pas la peine d'inspecter.

Où sont ces gens? Vos employés sont-ils tous à Ottawa? Ou un peu partout avec les autres...?

M. Emond: Monsieur le président, j'ai quelques employés à Toronto. Le Bureau s'est engagé à ce que, en 1988 et en 1989... de fait, nous avons commencé à établir une présence à Toronto.

Le président: Très bien. Vous avez un bureau à Toronto. Où est-il situé?

M. Emond: En réalité, nous avons deux bureaux à Toronto. D'abord, celui du 155, av. University, où se trouvent les anciens employés du Département des assurances. Il y a environ 54 employés dans ce bureau. Il y a aussi les bureaux du 150, rue York, où travaillent M. McKenzie, surintendant, et une partie de la division des fiducies et des prêts, le reste étant au 155, et quelques personnes qui ont de l'expérience dans le domaine bancaire.

Notre stratégie...

Le président: Combien de personnes travaillent rue York?

M. Emond: Six, du côté des banques, dont le surintendant.

Le président: Six personnes seulement?

M. Emond: Pour le moment. Nous prévoyons faire passer l'effectif de Toronto de 60 employés actuellement à 90 employés à la fin de l'exercice 1988-1989. De plus, nous voulons que l'examen des institutions de dépôts se fasse à Toronto. Nous emménagerons à l'automne au 1, rue Front, où nous serons tous rassemblés.

Le président: Vous aurez donc de nouveaux locaux au 1, rue Front.

M. Emond: Oui, monsieur. Le ministère des Travaux publics s'en occupe. Vous vous souviendrez aussi que les nominations au Bureau ont été effectuées en vertu de la Loi sur l'emploi dans la Fonction publique.

[Text]

[Translation]

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We have engaged the Public Service Commission in seeking an executive search firm to assist us in filling the senior jobs in Toronto. We plan to put seven senior personnel into the Toronto organization and, as I mentioned, run our deposit-taking institution examinations out of Toronto, close to the market.

The Chairman: I would suspect you will probably have to pay more in wages in Toronto for your very senior people, certainly to move them there. What are your projections for your senior people?

Mr. Emond: Mr. Chairman, at the present time we have not taken advantage of our separate employer status to come up with our own compensation plan. We are using the existing classification system of the Public Service of Canada that was used in the two former organizations. Therefore we are looking at levels, the most senior person in Toronto being executive level 4, or EX-4, one being executive level 2, or EX-2, and the balance, the other five, being EX-1s.

Now, we have engaged Mercer to do a study of the compensation problem that was pointed out as being a difficulty in acquiring appropriate staff. We expect that report before the end of March. At that time it will be considered to see whether we should be going with a different type of classification system.

The Chairman: When you tell me you are going to have 90 of your people in Toronto by the end of the year, are you still planning to leave the balance of the people in Ottawa, or are you going to open an office in Vancouver and an office in Montreal?

Mr. Emond: Mr. Chairman, we expect to be fully loaded in Toronto by the end of the calendar year; not by the end of March, in other words.

The Chairman: I appreciate that.

Mr. Emond: We do have an office in Vancouver at present, as well as in Winnipeg and Montreal. We have seven people allocated in Montreal. These are all former Department of Insurance offices. We have four in Winnipeg, with the head count going to five, and in Vancouver we are going to have six.

We are committed to looking at those regional offices to determine the degree to which we can in fact decentralize our activities, or alternatively, are required to build up our activities. Our attention at present, though, is on Toronto. We will be moving to these other issues early in the next fiscal year. It does take some time to structure and put in place an organization design for an office that is facing the challenges this one is.

At present we are looking for people who have preferably a degree in economics or business administration, an accounting designation, and some experience in financial institutions. We have most

Nous avons demandé à la Commission de la Fonction publique de trouver une entreprise de recherche de cadres pour nous aider à combler les postes de niveau supérieur à Toronto. Nous comptons embaucher sept cadres supérieurs dans cette ville et, comme je l'ai mentionné, procéder à l'examen des institutions de dépôts de Toronto, près du marché.

Le président: Je suppose que vous devez probablement verser des traitements élevés à vos cadres supérieurs, pour les attirer là-bas. Quelles sont vos projections pour les cadres supérieurs?

M. Emond: Monsieur le président, nous n'avons pas encore profité de notre statut d'employeur distinct pour mettre sur pied notre propre régime de rémunération. Nous employons le système de classification actuel de la Fonction publique du Canada, comme le faisaient les deux organisations précédentes. Par conséquent, l'employé occupant le poste le plus élevé à Toronto serait un EX-4, il y aurait un EX-2 et les cinq autres cadres seraient des EX-1.

Nous avons demandé à Mercer de mener une étude sur la rémunération, qui était comme une cause ressortie des difficultés éprouvées pour trouver le personnel dont nous avons besoin. Nous attendons ce rapport avant la fin de mars. À ce moment-là, nous l'examinerons et déciderons si nous devrions adopter un autre type de système de classification.

Le président: Vous affirmez que vous disposerez d'un effectif de 90 personnes à Toronto avant la fin de l'année, mais comptez-vous laisser le reste à Ottawa ou ouvrirez-vous des bureaux à Vancouver et à Montréal?

M. Emond: Monsieur le président, nous nous attendons à disposer d'un effectif complet à Toronto à la fin de l'année civile, pas à la fin de mars, autrement dit.

Le président: Je comprends.

M. Emond: Nous avons un bureau à Vancouver actuellement, ainsi qu'à Winnipeg et à Montréal. Il s'agit tous d'anciens bureaux du département des Assurances. Il y a sept personnes à Montréal. Il y a à Winnipeg quatre employés auxquels s'ajoutera un autre; à Vancouver, nous en aurons six.

Nous voulons examiner les bureaux régionaux pour déterminer dans quelle mesure nous pouvons effectivement décentraliser nos activités ou dans quelle mesure nous devons accroître nos activités. Mais à l'heure actuelle, notre attention se concentre sur Toronto. Nous passerons à ces autres questions au début du prochain exercice. Il faut un certain temps pour structurer et mettre en place une organisation dans un bureau faisant face aux défis auxquels nous faisons face.

Actuellement, nous recherchons de préférence des gens qui ont un diplôme en économie ou en administration des affaires, un titre comptable et une certaine expérience dans des institutions financières. nous avons recruté.

[Texte]

recently been able to hire an individual for our Toronto office from the Royal Bank.

The Chairman: You are having difficulty hiring competent people to do some of this more difficult work, are you?

Mr. Emond: In fairness, Mr. Chairman, it would be premature to make that kind of judgment. To date we have received, in response to some interviews Mr. Mackenzie had last summer, approximately 240 résumés of individuals who have expressed an interest in joining the office, many of whom have the types of qualifications I have mentioned. That being said, it does take time to get an organization such as this one off the ground and in a rational way. So I do not think it would be fair to assume at all that we would have difficulty in attracting competent people to the office.

Mr. de Jong: One of the things you would want to do, I would expect, is to get as many people with experience and "street smarts" as possible. I suppose that is a double bind there, because very often the career pattern is you work for the regulator, you work for the government, you learn all about the rules and the tricks; and then you go and you sell your talent in the private sector. In part what you are trying to do is to reverse the process a bit here.

Mr. Emond: In a sense we are. We certainly believe we need people who are quite well attuned to what is going on in the financial institutions.

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As I recall, Mr. Mackenzie, in some of his comments last week, mentioned the fact that we had acquired a specialist to look at treasury operations from an institution. We need that kind of skill. We have been fortunate to date in that, with the little recruiting we have done, we have been able to acquire it.

Mr. de Jong: If the need arises tonight, would you consider asking the institutions themselves to allow you to get people on loan, so to speak? Also, what sorts of problems would that create?

Mr. Emond: We have, you may know, under the former organizations, particularly the Inspector General of Banks, been involved with executive interchange. Two cases come to mind where an individual has come in from an institution and is on assignment. In fact, one today is on assignment in Toronto and has been around for a couple of years. At the same time, Mr. Hammond is looking for an exchange in relation, as I recall, to actuarial work.

Mr. Hammond: Yes.

Mr. Emond: Clearly, we have to be cautious in relation to what potentially could be perceived by the industry as a conflict of interest, and certainly we have to be cognizant of the fact that when these people go back into their institutions they understand clearly that they are not to

[Traduction]

récemment un ancien employé de la Banque Royale, pour notre bureau de Toronto.

Le président: Vous avez du mal à embaucher des gens compétents pour effectuer certaines tâches peu commodes, n'est-ce pas?

M. Emond: En toute justice, monsieur le président, il est trop tôt pour porter ce genre de jugement. Jusqu'ici, nous avons reçu, en réponse à quelques entrevues menées par M. Mackenzie l'été dernier, environ 240 curriculum vitae de gens qui se sont montrés intéressés à travailler au Bureau et dont beaucoup possèdent les types de compétences que j'ai mentionnées. Ceci étant dit, il faut du temps pour faire démarrer une organisation de ce genre d'une manière rationnelle. Je ne pense donc pas du tout qu'il soit juste de supposer que nous avons du mal à attirer des gens compétents au Bureau.

M. de Jong: L'une des choses que vous voulez faire, je suppose, c'est trouver autant de personnes expérimentées que possible qui connaissent bien le marché. Je suppose que la difficulté est double, parce que bien souvent le profil de carrière consiste à travailler pour l'organisme de réglementation, pour le gouvernement, et à apprendre toutes les règles et tous les trucs, puis à aller vendre ses talents au secteur privé. Vous essayez en partie de renverser ce processus.

M. Emond: En un sens. Nous sommes certainement convaincus que nous avons besoin de gens bien au courant de ce qui se passe dans les institutions financières.

Si je me souviens bien, M. Mackenzie mentionnait la semaine dernière qu'il avait déniché dans une institution un spécialiste pour s'occuper des opérations de trésorerie. Nous avons besoin de ce genre de compétences. Malgré le peu de recrutement que nous avons fait, nous avons eu la chance jusqu'ici de trouver ces compétences.

M. de Jong: Si le besoin se faisait sentir ce soir, envisageriez-vous de demander aux institutions de détacher des membres de leur personnel? Quelles seraient les difficultés susceptibles d'en découler?

M. Emond: Comme vous le savez peut-être, nous avons pu échanger des cadres, quand les anciennes organisations existaient encore, et tout particulièrement chez l'Inspecteur général des banques. Deux exemples me viennent à l'esprit de cas où un employé d'une institution a été affecté chez nous. De fait, il y a encore à Toronto une personne en affectation qui travaille pour nous depuis quelques années. Par ailleurs, M. Hammond cherche à organiser un échange dans le secteur de l'actuariat, si je ne m'abuse.

M. Hammond: C'est exact.

M. Emond: De toute évidence, nous devons être prudents face à ce que l'industrie pourrait percevoir comme un conflit d'intérêts et nous devons sûrement être conscients du fait que lorsque ces personnes retournent dans leurs institutions, elles comprennent clairement

[Text]

use knowledge that is acquired in the context of the performance of their duties with the office. But we would hope, with the building up of the presence in Toronto and with, I think, more visibility associated with the office, to get into exchanges so we remain current on developments and also permit, in the context of our own people, an opportunity for them to go and acquire specialized skills, specialized sensitivity in relation to the institutions. That, in fact, was started through exchanges or training with a bank during this current fiscal year.

The Chairman: I wonder if Ms Labarge could set out the detail of the article that appeared in *The Globe and Mail* today: "Federal Bank Regulator Sets Loan Loss Ceiling". It is indicating that you have decided somewhere in your work that you might allow 45% as a reserve. Can you explain that one?

Ms Suzanne Labarge (Deputy Superintendent, Regulatory Policy, Planning and Resources Sector, Office of the Superintendent of Financial Institutions): I would like to put the whole issue in perspective.

As you know, we had a major increase in the provisions last summer.

The Chairman: Yes.

Ms Labarge: We had hoped at that point it would be quite sufficient. Since then, of course, there have been a number of discussions internationally, as well as evolution in the various markets, and there is ongoing discussion. It came to a head earlier this year when there were a couple of bank annual meetings suggesting that there should be a raising of the provision levels.

We look at it, by the way, on a regular basis anyway. We have to review the 34 countries. We have to look at the level of provisions as part of our ongoing work.

At that point we had said that we would come out with the guidelines for the banks within the second quarter of this year, and we have been proceeding on that, as I say, doing a fair amount of analysis and discussion with interested parties, including foreign regulators, the Bank of Canada because of foreign exchange issues, and so forth.

What happened in the last little while is that a number of analysts got, probably, over-enthusiastic—that might be the word—and were suggesting that the office was going to be recommending a 55% or 65% level of provisioning. They were then raising questions about what that would do to the ability of Canadian banks to make dividends, what that would do to their level of profitability, and—

The Chairman: Indeed, today one agency reduced the credibility of four of our banks considerably, as you are perhaps aware.

Ms Labarge: Yes.

[Translation]

qu'elles ne doivent pas se servir des connaissances acquises dans l'exécution de leurs tâches au Bureau. Mais nous espérons, grâce à la présence que nous sommes en train d'établir à Toronto et grâce à la visibilité accrue du Bureau, réaliser des échanges pour que nous restions au courant de l'évolution et pour que nos employés aient l'occasion d'acquérir des compétences spécialisées, de se sensibiliser davantage aux institutions. Nous avons déjà commencé à le faire au cours de cet exercice au moyen d'échanges ou de formation avec une banque.

Le président: Je me demande si M^{me} Labarge pourrait apporter des précisions sur l'article paru dans le *Globe and Mail* d'aujourd'hui et intitulé «Federal Bank Regulator Sets Loan Loss Ceiling». On y indique que vous avez décidé de prévoir une réserve de 45 p. 100. Pouvez-vous expliquer ce qu'il en est?

Mme Suzanne Labarge (surintendante adjointe, secteur de la politique de réglementation, de la planification et des ressources, Bureau du surintendant des institutions financières): J'aimerais placer toute cette question en perspective.

Comme vous le savez, nous avons augmenté fortement nos provisions l'été dernier.

Le président: Oui.

Mme Labarge: Nous espérons, à ce moment-là, qu'elles seraient suffisantes. Depuis, il y a eu des discussions à l'échelle internationale, les divers marchés ont évolué et les discussions se poursuivent. L'idée est venue au début de l'année quand quelques banques ont laissé entendre, à leurs assemblées annuelles, qu'il faudrait peut-être majorer les provisions.

En passant, nous examinons la situation périodiquement. Nous devons passer 34 pays en revue. L'examen du niveau des provisions fait partie de nos opérations courantes.

À ce moment-là, nous avons déclaré que nous publierions des directives à l'intention des banques au deuxième trimestre de cette année, et nous avons pris des mesures en ce sens, par des analyses et des discussions assez nombreuses avec les parties intéressées, notamment les organismes de réglementation étrangers et la Banque du Canada, à cause des questions de change, et ainsi de suite.

Récemment, des analystes se sont montrés probablement trop enthousiastes—voilà peut-être le bon terme—et ont laissé entendre que le Bureau allait recommander un niveau de provisions de 55 p. 100 ou de 65 p. 100. Ils se sont ensuite demandé quelles seraient les conséquences pour la capacité des banques canadiennes de verser des dividendes, les conséquences pour la rentabilité, etc. . .

Le président: De fait, une agence a réduit fortement la cote de crédit de quatre de nos banques, comme vous le savez peut-être.

Mme Labarge: Je suis au courant.

[Texte]

They were doing an ongoing review; but the point is that what it was doing was creating major uncertainty in the markets that there would be another major loss recorded, as there was last year, and the view of the office and the view of the superintendent was that he wanted to put the rumours to rest.

What the release essentially says is what we are not going to do rather than what we are going to do. Our guidelines will be coming out in due course before the end of the quarter, but what we have said is that we see no reason for going beyond 45%.

You have to recognize that, because of the strengthening of the Canadian dollar, as well as certain treatment of Brazilian interests, certain banks are already over the 40% just by virtue of accounting practices.

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So really what we are doing is looking at all these elements. We are looking at the countries involved and, as I say, we will be issuing the guidelines before the end of the second quarter of the banks, which means by April 30.

Mr. de Jong: Could you elaborate a bit on how you came to the 45%? Was it with darts?

Ms Labarge: Mr. Chairman, it was not quite that unscientific. As you know, we have among the highest level of provisions in the world right now. The Canadian banks are well up there. I think there is a feeling that, if you look at the situation and compare where it was last summer and where it is today, there has not been a major change. There was always the view that we obviously want to make sure the banks have an adequate level of provisioning for any eventuality. That does not necessarily mean you should go to 100%.

Really, it was looking at where the banks were, what has been going on in the market, and there is no reason for a major increase. There may be a slight shift, and as I say, the guidelines are not out yet so the exact ranges have not been determined. But really it is just a feeling that, given where they were because of accounting and the foreign exchange, we do not see a reason for a major increase in provisions. We just do not think the situation has changed enough. There may have to be a slight shift to accommodate certain events, and that is really what it was about.

Mr. de Jong: When you put the guidelines out, will the guidelines vary in terms of what the reserve should be from country to country and from type of loan to type of loan? Would you get that detailed?

Ms Labarge: We have not taken the U.K. approach. The Bank of England is following the matrix approach, and it has a certain percentage for every single country. We have taken the way most of the other countries have, a basket approach.

[Traduction]

Il y avait un examen permanent, mais il créait une grande incertitude sur les marchés, qui craignaient une autre chute importante, comme celle de l'an dernier. Le Bureau et le surintendant ont jugé qu'il fallait faire taire cette rumeur.

Ce que nous disons dans le communiqué, c'est ce que nous ne ferons pas, plutôt que ce que nous ferons. Nos directives viendront comme prévu avant la fin du trimestre, mais nous ne voyons aucune raison d'aller au-delà de 45 p. 100.

Vous devez reconnaître que, en raison du raffermissement du dollar et d'une certaine façon de traiter les intérêts brésiliens, des banques ont déjà des provisions supérieures à 40 p. 100, du simple fait des pratiques comptables.

En réalité, nous examinons tous ces éléments. Nous tenons compte des pays en cause et, je le répète, nous publierons des directives avant la fin du deuxième trimestre des banques, ce qui veut dire avant le 30 avril.

M. de Jong: Pouvez-vous nous dire comment vous en êtes venus à 45 p. 100? En lançant des fléchettes?

Mme Labarge: Pas de façon aussi peu scientifique, monsieur le président. Comme vous le savez, nos provisions comptent parmi les plus élevées au monde actuellement. Les banques canadiennes ont des provisions très élevées. Nous avons l'impression que la situation n'a pas beaucoup changé par rapport à l'été dernier. Nous voulons toujours nous assurer que les banques ont des provisions suffisantes pour parer à toute éventualité. Ce qui ne signifie pas nécessairement des provisions de 100 p. 100.

Nous avons examiné la situation des banques, ce qui s'est passé sur le marché, et nous pensons qu'il n'y a aucune raison d'imposer une hausse importante. Il y aura peut-être un léger changement, mais comme je l'ai dit, les directives ne sont pas encore publiées, de sorte que les fourchettes exactes n'ont pas encore été déterminées. Nous avons simplement l'impression que, vu le niveau où les provisions se trouvent à cause des procédés comptables et du taux de change, il n'y a pas lieu d'accroître considérablement ces provisions. Nous n'estimons pas que la situation a assez changé pour justifier une telle hausse. Il y aura peut-être une légère modification, pour tenir compte de certains faits, mais c'est tout.

M. de Jong: Vos directives sur les provisions à établir varieront-elles selon le pays et selon le type de prêt? Y aura-t-il des précisions de ce genre?

Mme Labarge: Nous n'avons pas adopté l'attitude du Royaume-Uni. La Banque d'Angleterre a adopté la méthode des matrices et stipule un certain pourcentage pour chaque pays. Nous avons adopté la méthode employée par la plupart des pays, soit celle des paniers.

[Text]

Right now we have 34 countries in the basket. We look at those, and occasionally there is a change at the margin. I think last year we added one and dropped them on. But they are minimal amounts in terms of the total amounts the banks have out.

We have set a general level for all the countries. We have never gone specific for individual countries. We just do not think we can be that scientific to warrant going that approach. As I say, the U.K. has done it. It seems to work well enough for them. They are looking at a different set of countries from what we are.

The Chairman: When do you think these debts can be paid back?

Mr. de Jong: In the sweet by and by?

Ms Labarge: In most cases, if you look at any country, be it Canada, the U.S. or Brazil, it is not usually a question of whether or not you ever get the principal back; it is a question of whether or not they service the interest and have sufficient funds so you can exit and somebody else can buy in.

The Chairman: All right, when can our guys get out, and can they get out by selling their loans right now and be clean at 45¢ as a loss?

Ms Labarge: I will go back. It is a question of an ongoing business versus distress sale. I guess we found out the hard way with the CCB, and it was something Mr. McKenzie mentioned last week, Mr. Chairman. As we found out with the Hongkong and Shanghai Banking Corporation buying the Bank of B.C., there was a considerable difference between what you could realize in an ongoing concern versus a distress sale.

Our view would be that LDC countries are not a distress sale and that there are, as you know, steps being taken by various governments, by the central bank, to try to work and dissolve the LDC debt problem. It is not exclusively an individual bank problem, but the whole system. If these countries are able to get through the period we are in now through various mechanisms, such as the World Bank increasing its capital so it can provide more funding and allow the countries to get out of the trap they managed to get in over the last 10 years, yes, there is a possibility that these loans would return to a normal status. I guess the fact that we have reserves indicates that we think it may not be as soon as one would like and that it was only prudent to take reserves against the existing loans.

The Chairman: The United States had an arrangement whereby they were prepared to guarantee a percentage of debt for their banks on Mexican loans. Has the

[Translation]

À l'heure actuelle, notre panier comprend 34 pays. Nous examinons ces pays et, de temps à autre, nous apportons une légère modification. L'année dernière, nous avons ajouté un pays et en avons retranché un. Mais ils représentent des montants infimes par rapport aux sommes prêtées par les banques.

Nous avons fixé un niveau général pour tous les pays. Nous n'avons jamais établi de norme précise pour chaque pays. Nous ne pensons pas pouvoir être assez scientifiques pour adopter cette attitude. Comme je l'ai mentionné, le Royaume-Uni l'a fait et cela semble bien fonctionner dans leur cas. Ils font affaire avec un ensemble de pays différent du nôtre.

Le président: Pensez-vous que ces dettes peuvent être remboursées?

M. de Jong: Un de ces beaux jours?

Mme Labarge: Dans la plupart des cas, qu'il s'agisse du Canada, des États-Unis ou du Brésil, la question qui se pose n'est habituellement pas de savoir si l'on va se faire rembourser le principal un jour, mais plutôt si les intérêts peuvent être payés et s'il y a assez de fonds pour que l'on puisse se retirer et que quelqu'un d'autre prenne sa place.

Le président: Très bien, quand nos gens pourront-ils se retirer, et peuvent-ils le faire en vendant leurs prêts maintenant, quitte à perdre 45c. par dollar?

Mme Labarge: Je reviendrai en arrière. C'est une question d'affaires continues ou de ventes de biens saisis. Je crois que nous l'avons appris à nos dépens dans le cas de la Banque continentale et c'est un aspect que M. McKenzie a mentionné la semaine dernière, monsieur le président. Comme nous l'avons constaté quand la Hongkong and Shanghai Banking Corporation a acheté la Banque de la Colombie-Britannique, il y a une différence énorme entre ce qu'on peut réaliser quand les affaires continuent au lieu de vendre des biens saisis.

Nous pensons que les pays en développement ne sont pas comme des ventes de biens saisis et que, comme vous le savez, les divers gouvernements et la banque centrale peuvent prendre des mesures pour aider à résoudre le problème de l'endettement de ces pays. Le problème ne touche pas uniquement les banques, mais tout le système. Si ces pays peuvent traverser la période que nous vivons actuellement grâce à divers mécanismes, tels qu'une augmentation du capital de la Banque mondiale pour que cette dernière puisse accorder plus de financement et permettre aux pays de se sortir du piège dans lequel ils se sont fait prendre au cours des dix dernières années, il est possible que ces prêts redeviennent normaux. Que nous ayons des réserves indique que nous ne pensons pas que cela se produira aussi tôt que nous le voudrions et qu'il n'était pas prudent de prévoir des réserves pour les prêts existants.

Le président: Les États-Unis ont eu un mécanisme par lequel ils garantissaient un pourcentage des dettes dues à leurs banques par le Mexique. Le surintendant a-t-il fait

[Texte]

superintendent made such a recommendation to the government with respect to our domestic banking industry?

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Ms Labarge: To the best of my knowledge, all the U.S. government did was allow the Mexican government to purchase zero coupon bonds, to use them as collateral should banks wish to exchange their debt for bonds that would trade in the Luxembourg market. It was not a recommendation of the government to guarantee a portion of Mexico's debts. What it did, as I say, was it allowed the Mexicans to buy, at market rates, zero coupon bonds. There is no such provision, I do not think, that—

The Chairman: You made no effort to do that.

Ms Labarge: That was initiated, Mr. Chairman, by the Morgan Bank. It was not initiated there by the U.S. government, it was initiated by the Morgan Bank. The only thing that happened there was that the U.S. government and the equivalent of their Department of Finance agreed that the zero coupon bond could be sold to the Mexicans. But it was a private initiative from a private bank. It was not a government initiative. The U.S. government initiative has been the Baker plan and the increased funding of the World Bank. As you know, the Canadian government has participated in that.

Mr. McCrossan: Thank you, first of all, for arranging for the release of the reports I referred to last Thursday.

I will first ask a couple of questions on possible discussions that might have taken place with the Auditor General and the Comptroller General.

The first-ever report on the judges' pension plan indicates there is a total unfunded liability in excess of \$300 million. Is it the intention of either the Auditor General or the Comptroller General to recognize that amount as a debt of Canada in their report? Have there been any discussions about recognizing this? We have never done an evaluation of the judges' plan before. As I understand it, the benefits have just been promised. Now that we know an amount in excess of \$300 million is involved, has there been any discussion about actually reflecting this amount in the books of Canada?

Mr. Hammond: Mr. Chairman, I cannot speak on behalf of the Comptroller General or the Auditor General. As far as I know, there has been no discussion with our office on this issue. But with your permission, Mr. Chairman, I will ask the Chief Actuary to confirm that he has not had any discussion on that subject.

He so confirms.

Mr. McCrossan: Is the same thing true of the MPs' pension plan, where the deficit is shown as \$135 million?

[Traduction]

au gouvernement une recommandation en ce sens en ce qui concerne notre secteur bancaire national?

Mme Labarge: À ma connaissance, tout ce qu'a fait le gouvernement américain c'est permettre au gouvernement mexicain d'acheter des obligations sans coupons et de s'en servir comme garantie si les banques souhaitaient échanger leur dette contre des obligations négociées sur le marché luxembourgeois. Il n'a pas recommandé de garantir une portion de la dette mexicaine. Il a simplement permis aux Mexicains d'acheter, au prix du marché, des obligations sans coupons. Il n'y a pas de disposition, à mon avis. . .

Le président: Vous n'avez fait aucun effort en ce sens.

Mme Labarge: Cette mesure a été prise par la Morgan Bank, pas par le gouvernement américain. Tout ce qu'a convenu le gouvernement américain et l'équivalent du ministère des Finances c'est que les obligations sans coupons pouvaient être vendues aux Mexicains. Mais il s'agissait d'une initiative privée d'une banque privée. Il ne s'agissait pas d'une mesure du gouvernement. Les mesures prises par le gouvernement ont été le plan Baker et une hausse du financement de la Banque mondiale. Comme vous le savez, le gouvernement canadien y a participé lui aussi.

M. McCrossan: Je vous remercie d'abord de nous avoir transmis les rapports auxquels j'avais fait allusion jeudi dernier.

Je poserai quelques questions sur les discussions susceptibles d'avoir eu lieu entre le vérificateur général et le contrôleur général.

Le premier rapport jamais publié sur le régime de retraite des juges indique qu'il existe un passif non financé de plus de 300 millions de dollars. Le vérificateur général ou le contrôleur général ont-ils l'intention de considérer ce montant comme une dette du Canada dans leur rapport? Y a-t-il eu des discussions à ce propos? Nous n'avons jamais évalué le régime des juges. Si je comprends bien, les prestations ont simplement été promises. Maintenant que nous sommes au courant d'un passif de plus de 300 millions de dollars, y a-t-il eu des discussions pour tenir compte de ce montant dans les comptes du Canada?

M. Hammond: Monsieur le président, je ne peux parler au nom du contrôleur général ni du vérificateur général. À ma connaissance, il n'y a pas eu de discussions sur cette question à notre bureau. Mais avec votre permission, monsieur le président, je demanderai au chef de l'actuariat de confirmer qu'il n'y a pas eu de discussion à ce sujet.

C'est confirmé.

M. McCrossan: En est-il de même du régime de retraite des députés, pour lequel il y aurait un déficit de 135 millions de dollars?

[Text]

Mr. Hammond: Yes, that is my understanding. Again I will ask, with your permission, the Chief Actuary to confirm that there has been no discussion with the Comptroller General or the Auditor General.

Perhaps Mr. Riese should join us, with your permission, Mr. Chairman.

The Chairman: Yes.

Mr. Walter Riese (Chief Actuary, Office of the Superintendent of Financial Institutions): Mr. Chairman, in the last few years there has been an item in the Public Accounts showing the unfunded liabilities for the various superannuation accounts. In the last year I think it included as well the Members of Parliament.

Mr. McCrossan: Are you saying it was in the year-end figures, even though the report had not been published?

Mr. Riese: They were estimates, made as of March 31, 1987.

Mr. McCrossan: Right. So we would expect to see both these amounts reflected in the accounts of Canada in the year closing March 31, 1988, at the end of this month.

Mr. Riese: I believe they would be shown in the items showing the unfunded liability.

The Chairman: May I ask a supplementary on that? This unfunded liability is based on the assumption that Parliament closes tomorrow and all the civil servants of the government are laid off tomorrow and they all go on pension and there are no more contributions, is it not?

Mr. Riese: No, that is not the assumption. The assumption is that there are no future benefits.

The Chairman: And there are no future contributors.

Mr. Riese: That is right. But all the past benefits are paid as they would normally be paid.

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The Chairman: I see. But these schemes were never designed to be funded, is that not correct?

Mr. Riese: Well, Mr. Chairman, the Public Service Superannuation Account and the Canadian Forces and the RCMP Superannuation accounts have been maintained on an actuarial basis for many years. It is only the indexing part that has not been on an actuarial basis. The Members of Parliament, I believe, have not been on an actuarial basis.

The Chairman: It was never intended to be, though. Is that not fair to say? The pension was paid immediately—the act was fast—to Members of Parliament then retiring.

Mr. Riese: Well, I do not know what the intent was, but I believe there is no provision for any funding of any unfunded liabilities in the Members of Parliament retiring allowances.

[Translation]

M. Hammond: Je le crois. Encore une fois, avec votre permission, je demanderai au chef de l'actuariat de confirmer qu'il n'y a pas eu de discussions avec le contrôleur général ni avec le vérificateur général.

M. Riese pourrait peut-être se joindre à nous, si vous le permettez, monsieur le président.

Le président: D'accord.

M. Walter Riese (chef de l'actuariat, Bureau du surintendant des institutions financières): Monsieur le président, depuis quelques années un poste des comptes publics indique le passif non financé de divers comptes de pension de retraite. L'an dernier, je crois qu'il comprenait aussi le régime de retraite des députés.

M. McCrossan: Affirmez-vous qu'il faisait partie des chiffres de fin d'exercice, même si le rapport n'avait pas encore été publié?

M. Riese: Il s'agissait d'estimations effectuées au 31 mars 1987.

M. McCrossan: D'accord. Nous pourrions donc nous attendre que ces deux montants figurent dans les comptes du Canada pour l'exercice se terminant le 31 mars 1988, à la fin de ce mois.

M. Riese: Je crois qu'ils feraient partie des éléments du passif non financé.

Le président: Puis-je poser une question supplémentaire à ce sujet? Ce passif non financé repose sur l'hypothèse que le Parlement cesse ses activités demain et que tous les fonctionnaires du gouvernement sont mis à pied demain, prennent leur retraite et qu'il n'y a plus de cotisations, n'est-ce pas?

M. Riese: Non, l'hypothèse est qu'il n'y a plus de prestations futures.

Le président: Et qu'il n'y a plus de cotisations futures.

M. Riese: C'est exact. Mais toutes les prestations échues sont versées comme prévu.

Le président: Je vois. Mais ces régimes n'ont jamais été conçus pour être financés, n'est-ce pas?

M. Riese: Eh bien, monsieur le président, le compte de régime de retraite de la Fonction publique et les comptes de régime de retraite de l'armée canadienne et de la GRC ont tous été tenus d'après les principes actuariels depuis de nombreuses années. Seule la partie indexée ne repose pas sur ces principes. Si je ne m'abuse, le régime des députés ne se fonde pas sur les principes actuariels.

Le président: Il n'en a jamais été question, cependant. On peut l'affirmer, n'est-ce pas? La retraite était versée immédiatement—le geste était rapide—aux députés qui prenaient leur retraite.

M. Riese: J'ignore quel en était l'objet mais, si je ne m'abuse, il n'y a aucune disposition relative au refinancement d'un passif quelconque au chapitre des allocations de retraite destinées aux députés.

[Texte]

The Chairman: Assuming we continued to have 282 or 299, or whatever it is, Members of Parliament and assuming they continue to be elected from time to time and continue to contribute the massive amounts we are required to contribute—

Mr. Dorin: It is \$520.50 a month.

The Chairman: —when will the government in fact have to put some money up to pay our pension and not rely just entirely on the contributions we individually make to pay our own pensions?

Mr. Riese: Well, we have made no studies when the fund might be exhausted.

The Chairman: When will the government put up a nickle toward Members of Parliament pensions that the members have not already put up themselves?

Mr. Riese: The contributions that are made now are matched by the government.

The Chairman: If indeed there were matching, which there is not, would there in fact be more money than something in the neighbourhood of \$20 million or \$30 million on hand?

Mr. McCrossan: That is not surplus.

Mr. Dorin: Money is money, you know. Cash is cash.

Mr. McCrossan: No, no. I think it is fair to say the assets—combined assets—matching are \$30 million and combined liabilities are \$165 million.

The Chairman: There is no liability at all. As long as people are still serving there is no liability. You do not pay a pension as long as somebody is working. As long as somebody is working in that job, you always have some contributor there. The poor slob is paying for someone else.

Mr. McCrossan: I think these are largely liabilities for people who have left service. Is that correct?

Mr. Dorin: If we were to assume, for example, that all the current members continue to serve until they die, in actual fact the liability is pretty small, would it not be? At that point only our widows might be entitled to something, whatever that would be.

Mr. McCrossan: Well, that is not a reasonable assumption.

Mr. Dorin: It may not be a reasonable assumption, but—

The Chairman: What I want to know is why would you treat it as a liability when every year that goes by, the money actually paid out by the Government of Canada to retired members, their widows and their infant children or orphans, is in excess of or is less than the money that members in fact contribute? Why would you treat it as any liability? Is it not a fact that the members in fact pay their own pension completely?

[Traduction]

Le président: En supposant que nous continuons d'avoir 282 ou 299 députés, peu importe, et en supposant qu'ils continuent à être élus et à verser les cotisations énormes que nous devons verser. . .

M. Dorin: 520,50\$ par mois.

Le président: . . . le gouvernement devra-t-il délier les cordons de la bourse pour payer nos pensions au lieu de se fier uniquement aux cotisations que nous versons chacun de notre côté pour préparer notre retraite?

M. Riese: Nous n'avons pas fait d'études pour déterminer quand le fonds pourrait venir à sec.

Le président: Quand le gouvernement versera-t-il quelques sous pour les pensions des députés en plus de ce que les députés paient déjà eux-mêmes?

M. Riese: Le gouvernement verse maintenant une contribution égale aux cotisations.

Le président: Si tel était le cas, ce qui n'est pas vrai, n'y aurait-il pas plus de quelque 20 ou 30 millions de dollars dans les caisses?

M. McCrossan: Il ne s'agit pas d'un excédent.

M. Dorin: De l'argent, c'est de l'argent vous savez. Du comptant, c'est du comptant.

M. McCrossan: Non, non. Il est juste d'affirmer que l'actif global—les avoirs combinés—se chiffre à 30 millions de dollars et le passif combiné, à 165 millions de dollars.

Le président: Il n'y a aucun passif. Tant qu'il y a des gens en poste, il n'y a pas de passif. On ne paie pas une pension, tant que quelqu'un travaille. Tant que quelqu'un occupe le poste, il y a toujours un cotisant. Le pauvre bougre paie pour quelqu'un d'autre.

M. McCrossan: Je crois qu'il s'agit surtout d'un passif pour ceux qui ont cessé de travailler. Ai-je raison?

M. Dorin: En supposant, par exemple, que tous les députés actuels continuent de l'être jusqu'à leur mort, le passif serait assez faible, n'est-ce pas? À ce moment-là, seules nos veuves auraient peut-être droit à quelque chose.

M. McCrossan: Cette hypothèse n'est pas raisonnable.

M. Dorin: Elle n'est peut-être pas raisonnable, mais. . .

Le président: Ce que je voudrais savoir, c'est pourquoi on considère ce montant comme un passif quand, à chaque année que le bon Dieu amène, les montants versés par le gouvernement du Canada aux députés à la retraite, à leurs veuves et à leurs enfants sont supérieurs ou plutôt inférieurs aux cotisations des députés? Pourquoi parler de passif? N'est-il pas vrai que les députés paient leur propre pension presque en entier?

[Text]

Mr. Riese: Well, Mr. Chairman, actually that is a feature in most pension plans.

The Chairman: Yes. That is why pension plans are profitable and actuaries seem to get away with murder.

The truth of the matter is that if you give us any kind of interest on our money, we pay our own pensions. I do not know why we should be told that we are \$165 million short when the truth of the matter is that we pay all the money in and we only take out what we put in. The government makes a profit on it.

Mr. McCrossan: Mr. Chairman, since you have raised that issue, it seems to me there is a table here which indicates that the value of the pensions is something like—let me just find it here. . .

The Chairman: Not worth anything.

Mr. McCrossan: I assume you will give yours up at the end of the meeting.

The Chairman: Yes, sir. I have to get my money back.

Mr. McCrossan: We get a raise in salary, if you trade it for the pension.

If we look at members only, the pension is worth 48% of payroll, you calculate, and the members contribute 10%. This is on page 19, in appendix I.

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Mr. Riese: Yes. That is the subsidiary cost calculation.

Mr. McCrossan: What are the main cost calculations then?

Mr. Riese: It is actually in the certificate on page 2. It comes to 44.02%, on the assumption that members' salaries increase at the rate of CPI less 1%.

Mr. McCrossan: I am just looking at a member's account. For Ministers, it is 51.5%—in round numbers—for which they pay 11%.

Mr. Riese: That is correct. Those are the additional salaries.

Mr. Dorin: Let me ask you a question, because I think this whole thing is nonsense. I am with the chairman on this, in spite of normally being in agreement with Paul, because we deal with things on a fundamentally sound accounting basis. I think when you look at certain categories of people—and Members of Parliament are exactly that—there is no comparison to what would be a normal career, say, or a career civil servant.

Maybe you can clarify this. I will take my own case. For example, if I continue to be re-elected and choose to serve until the age of 65, and then I retire and collect whatever pension at the same rate that is given now—

[Translation]

M. Riese: C'est une caractéristique de la plupart des régimes de retraite, monsieur le président.

Le président: En effet. Voilà pourquoi les régimes de retraite sont rentables et les actuaires semblent s'en tirer à bon compte.

La vérité est que si vous nous donnez des intérêts sur notre argent, nous payons nos propres pensions. Je ne comprends pas pourquoi on nous dit que nous avons un déficit de 165 millions de dollars quand, en réalité, nous payons tout et nous ne retirons que ce que nous avons versé. Le gouvernement réalise un profit sur cet argent.

M. McCrossan: Monsieur le président, puisque vous avez soulevé la question, il me semble qu'il y a un tableau révélant que la valeur des pensions est de l'ordre de—laissez-moi retrouver le chiffre. . .

Le président: Pas la peine d'en parler.

M. McCrossan: Je suppose que vous renoncerez à la vôtre à la fin de la réunion.

Le président: Oui, monsieur, je veux récupérer ma mise.

M. McCrossan: Nous obtenons une hausse de nos traitements, si vous renoncez à la pension.

Dans le cas des députés, la caisse de retraite représente 48 p. 100 de la rémunération, calculez bien, et les cotisations des députés, 10 p. 100. Ces chiffres se trouvent à la page 19 de l'annexe I.

M. Riese: Oui. C'est le calcul de coût subsidiaire.

M. McCrossan: Quel est donc le calcul de coût principal?

M. Riese: Il se trouve en fait dans le certificat à la page 2. Ça nous donne 44,02 p. 100 en partant du principe que le salaire des députés augmente au rythme du coût de la vie, moins 1 p. 100.

M. McCrossan: Je regarde justement le compte des députés. Dans le cas des ministres, c'est 51,5 p. 100—en chiffres ronds—sur lesquels ils paient 11 p. 100.

M. Riese: C'est exact. Ce sont les salaires supplémentaires.

M. Dorin: Je voudrais vous poser une question, car il me semble que tout cela est insensé. Je rejoins le président sur ce point même si de manière générale je suis d'accord avec Paul, parce que nous devons nous référer à des principes comptables généralement acceptés. Je considère que lorsqu'on s'adresse à des catégories bien particulières de gens—ce qui est bien le cas lorsqu'on parle de députés—il n'y a aucune possibilité de comparaison avec une carrière normale, disons celle d'un fonctionnaire.

Peut-être pourriez-vous nous donner quelques éclaircissements. Prenons mon propre cas. Si, par exemple, je continue à être réélu et si je choisis d'occuper ma fonction jusqu'à 65 ans, pour ensuite prendre ma

[Texte]

forgetting inflation and all that—chances are I am going to put in more money than I ever get out. Now, I realize you are trying to balance that off for somebody who may not serve that long, but it seems to me pretty difficult to make any assumptions about the tenure of a Member of Parliament.

Like the chairman, I have difficulty saying you have this problem until such time as the Government of Canada and Parliament decide they are going to have to chip in some money to make up a cash shortfall. I do not see any great problem, because by and large Parliament could decide to change the rules tomorrow. In fact, the Minister of Finance announced some time ago he was going to change the rules. It just seems to me this is somewhat of a red herring. The assumptions would be questionable. I guess I would put it that way. In order to come up with a number, you have to make certain assumptions, and I am not sure you could defend those assumptions very well in this particular case.

Mr. McCrossan: Could I just clarify that by asking a question? As I read appendix VI of the report, you valued the cost of this benefit on 21 different dates—after each election in the last seven elections, the seven triennial years or 21-year period ending in 1985, and the 21-year period ending in 1983—and the figures do not seem to change. They are very stable indeed, depending on actual historical experience. Sure, some members like Stanley Knowles serve forever, and some members are defeated early.

Effectively, the appendix seems to indicate the cost of this plan is very stable, notwithstanding the fact that some members have very short careers and other members have very long careers. On average, the normal cost is consistently in the low-to-mid-40% of payroll. Is that not the conclusion you draw from those 21 valuations?

Mr. Riese: That is the conclusion we came to, Mr. Chairman.

Mr. McCrossan: So while some individual members may come in at a very young age and serve forever, others come in at an older age and serve for a short time. It seems to stabilize very consistently over 21 different years of valuations.

At the last meeting, I was asking about the valuation of property and casualty companies. Under the acts we passed last year, valuation certificates by an actuary are required in 1991 but can be required by you at an earlier date. I understand you have already been requiring evaluation certificates by an actuary in a number of companies.

[Traduction]

retraite et retirer une pension au taux qui s'applique à l'heure actuelle—sans tenir compte de facteurs comme l'inflation—il est bien possible que je verse davantage d'argent que je vais en retirer. Certes, je me rends bien compte que vous vous efforcez d'équilibrer les choses en faveur de ceux qui n'exerceront pas leur mandat sur une aussi longue période, mais il me paraît bien difficile de préjuger de la longueur du mandat d'un député.

Comme le président, j'éprouve de la réticence à vous dire que vous êtes confrontés à ce problème tant que le gouvernement du Canada et que le Parlement n'auront pas décidé de verser un peu d'argent à la caisse pour combler le déficit de trésorerie. Je ne pense pas que la situation soit très grave car de manière générale le Parlement peut décider dès demain de changer les règles. Le Ministre des finances a d'ailleurs annoncé il y a quelque temps qu'il allait changer les règles. Ça me paraît être tout simplement un pont aux ânes. Je dirais que les hypothèses sont contestables. Pour arriver à un chiffre, vous formulez certaines hypothèses et je ne suis pas sûr qu'elles se défendent véritablement dans ce cas particulier.

M. McCrossan: J'aimerais apporter certains éclaircissements en posant une question. À la lecture de l'annexe 6 et du rapport, je constate que vous avez évalué le coût de cette prestation à 21 dates différentes—après chacune des 7 dernières élections, tous les trois ans sur la période de 21 ans qui prend fin en 1985 et tous les trois ans sur la période de 21 ans qui se termine en 1983—et il ne semble pas que les chiffres changent. Ils restent en fait très stables au cours de cette période historique. Bien évidemment, certains députés comme Stanley Knowles paraissent indéboulonnables alors que d'autres subissent très tôt la défaite.

Effectivement, l'annexe semble indiquer que le coût du régime est très stable en dépit du fait que certains députés ont des carrières très courtes et d'autres des carrières prolongées. En moyenne, le coût normal se situe régulièrement entre 40 et 45 p. 100 de la fiche de paie. Est-ce bien là la conclusion que vous tirez de ces 21 évaluations de coût?

M. Riese: C'est la conclusion à laquelle nous sommes arrivés, monsieur le président.

M. McCrossan: Donc, alors que certains députés sont élus très jeunes et ne partent plus, d'autres arrivent à un âge plus avancé et ne restent pas longtemps. Il semble que la situation se stabilise assez bien au cours de la période d'évaluation de 21 ans.

Lors de la dernière réunion, j'ai posé une question au sujet des mesures d'évaluation se rapportant aux compagnies d'assurance tous risques. En vertu des lois adoptées l'année dernière, il sera exigé en 1991 un certificat d'évaluation émanant d'un actuaire, mais vous pouvez l'exiger à une date plus rapprochée. Si je comprends bien, vous avez déjà exigé qu'un actuaire fournisse un certificat d'évaluation dans le cas d'un certain nombre de compagnies.

[Text]

[Translation]

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Mr. Hammond: Mr. Chairman, that is correct. Under the legislation that was passed, we have the authority to require a certificate or an opinion by an evaluation actuary notwithstanding the transition provisions. Indeed, as of the end of 1987, a number of companies have been required to provide us with an actuarial opinion with respect to the adequacy of their claims, reserves and their unearned premium reserves.

Mr. McCrossan: Could I have some idea of the number of companies requiring actuarial certificates compared to the total federally registered companies?

Mr. Hammond: The number of companies required to provide actuarial certificates is in the order of 20 to 25, as compared to some 200.

Mr. McCrossan: Were these evaluation certificates required after the fact?

Mr. Hammond: No, the companies were told in early November. We sent quite an extensive memo to all the companies in the property and casualty insurance industry indicating what we were expecting in terms of the content of the report, and what we were looking for. Some of these have a lot of long tail business and others have narrower capital and surplus margins than other companies. It is just based on our knowledge of the company's operations and our history of examination results. We contacted those companies in November and we told them we were expecting them to provide an actuarial opinion with respect to their reserves as of the end of the year.

Mr. McCrossan: Would those actuarial opinions normally be due at the end of this month or have they been received already?

Mr. Hammond: Some of them have been received. Yes, they are due this month.

Mr. McCrossan: At this point, I wonder whether you are in a position to make observations about the levels of the claims reserves required when an actuarial certificate is provided versus the prior level of claims reserves.

Mr. Hammond: Mr. Chairman, it is too early to provide you with any sort of definitive response because the reports did not start to come in until March 1. They were not due until the March 1 and the staff is now reviewing them. If I could give some sort of preliminary indication, my staff is telling me there are some signs of reserve strengthening. It is too early to give you a definite response to that question.

Mr. McCrossan: As you know, the meeting of the Canadian Institute of Actuaries is taking place in Ottawa yesterday and today and the council meeting was on

M. Hammond: C'est exact, monsieur le président. En vertu de la législation que nous avons adoptée, nous avons le pouvoir d'exiger un certificat ou un avis remis par un actuaire même s'il ne s'agit encore que de dispositions transitoires. D'ailleurs, à la fin 1987, un certain nombre de compagnies avaient déjà dû nous fournir un avis d'actuaire justifiant d'un bon équilibre dans leur comptabilité entre leurs demandes de remboursement, leurs réserves et leurs réserves correspondant à des primes non gagnées.

M. McCrossan: Pouvez-vous nous donner une idée du nombre de compagnies devant fournir un certificat d'actuaire par rapport au total des compagnies constituées en société au niveau fédéral?

M. Hammond: Il est de l'ordre de 20 à 25, sur un total de 200.

M. McCrossan: Ces certificats d'évaluation ont-ils été exigés *a posteriori*?

M. Hammond: Non, les compagnies ont été informées au début novembre. Nous avons fait parvenir une note assez complète à toutes les compagnies d'assurance tous risques, en leur indiquant ce qu'elles devaient faire figurer dans leur rapport, ce que nous voulions y voir. Certaines d'entre elles sont de véritables conglomerats et d'autres ont un capital et un excédent plus faibles que leurs concurrentes. Nous sommes intervenus en fonction de ce que nous savions sur le fonctionnement de ces entreprises et des résultats que nous avons pu examiner par le passé. Nous avons contacté ces compagnies en novembre et nous leur avons demandé de nous fournir un avis d'actuaire concernant leurs réserves à la fin de l'année.

M. McCrossan: Ces avis d'actuaire doivent-ils normalement vous parvenir à la fin du mois ou les avez-vous déjà reçus?

M. Hammond: Nous avons déjà reçu certains d'entre eux. Oui, ils doivent nous parvenir avant la fin du mois.

M. McCrossan: Parvenu à ce point, je me demande si vous êtes en mesure de faire un certain nombre d'observations sur l'évolution du montant des réserves nécessaires pour faire face aux demandes de remboursement par rapport à la situation antérieure lorsqu'un certificat d'actuaire est fourni.

M. Hammond: Monsieur le président, il est encore trop tôt pour vous donner une réponse définitive car les rapports n'ont commencé à arriver que le 1^{er} mars. La date limite était fixée au 1^{er} mars et notre personnel est en train de les examiner. Je peux vous donner une première indication en vous disant que mon personnel m'indique qu'il y a certains signes de renforcement des réserves. Il est encore trop tôt pour vous donner une réponse définitive sur ce point.

M. McCrossan: Comme vous le savez, l'assemblée de l'Institut canadien des actuaires s'est tenue hier à Ottawa et se poursuit aujourd'hui, et le conseil doit se réunir

[Texte]

Sunday. I had occasion to talk to a number of actuaries who suggested that reserve increases of the order of 15% might not be uncommon.

Mr. Hammond: It is too early for me to comment on that. Certainly, the staff who are reporting to me are saying they are sensing increases, but it is really too early. I could not confirm 15%.

Mr. McCrossan: This comes back to the issue I was discussing with you with respect to the income tax action in releasing a proportion of the long tail reserves. How soon would we be in a position to have some idea of the representative strengthening, if indeed, strengthening is occurring where certificate is required? Essentially, if we have a 10% sample, and that is the sort of sample you suggested, and there is a consistent or an apparent pattern of reserve strengthening, I think it puts even more of a question in our mind as to the assumption that reserves can be released as a result of the proposed changes in the Income Tax Act.

Mr. Hammond: Mr. Chairman, I would say that in mid-April we should be able to have some sort of report on our assessment of the changes.

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Although we have required actuarial reports with respect to the companies I mentioned, we would hope we would get more actuarial reports than that. Of course, we are required to get reports from persons who are not actuaries in the case of the other companies.

Mr. McCrossan: If we see this pattern, would that prompt you to expand the number of companies you require to have actuarial certificates next year? Up until now, you are allowing certificates by people who are acceptable to you.

Mr. Hammond: That is right.

Mr. McCrossan: Would you foresee requiring more companies to file actuarial certificates if there is a pattern of under-reserving, once appropriate certification has taken place?

Mr. Hammond: I could foresee that. Certainly it was our intention to review the results of the implementation of the new legislation as of the end of 1987—review that this year and then decide on what our approach should be for next year.

Mr. McCrossan: The business that is particularly affected by the income tax measures is the the long liability business. Is the strengthening primarily concentrated in that area, or is it a strengthening across the board?

Mr. Hammond: Again, it is too early for me to say. I cannot really give you a definitive reply in that regard.

[Traduction]

dimanche. J'ai eu l'occasion de parler à un certain nombre d'actuaire qui m'ont indiqué que les réserves pourraient augmenter de 15 p. 100.

M. Hammond: Il est encore trop tôt pour que je puisse commenter ce chiffre. Mon personnel me dit bien qu'il devrait y avoir augmentation, mais il est encore trop tôt. Je ne pourrais pas confirmer ce chiffre de 15 p. 100.

M. McCrossan: Cela nous ramène à la question dont je traitais avec vous au sujet de l'application en matière d'impôt sur le revenu de mesures permettant de dégager une partie des réserves à long terme. Quand serez-vous en mesure de nous dire si un véritable renforcement des réserves a eu lieu, si on assiste à un renforcement lorsqu'un certificat est exigé? À la base, si nous travaillons sur un échantillon de 10 p. 100, et c'est là le type d'échantillon que vous avez proposé, et si le renforcement des réserves apparaît généralisé ou uniforme, je pense que cela nous amène à nous interroger davantage sur notre hypothèse qui veut que l'on puisse dégager des réserves à la suite des modifications proposées à la Loi de l'impôt sur le revenu.

M. Hammond: Monsieur le président, je vous répondrai à la mi-avril, lorsque nous aurons pu évaluer l'impact des changements.

Tout en ayant exigé des rapports d'actuaire au sujet des compagnies que je vous ai mentionnées, nous espérons en obtenir davantage. Bien entendu, il nous faut obtenir des rapports émanant de personnes qui ne sont pas actuaires pour les autres compagnies.

M. McCrossan: Selon ce schéma, allez-vous être amené à augmenter le nombre de compagnies qui seront tenues de fournir des certificats d'actuaire l'année prochaine? Jusqu'à présent, vous autorisez les certificats émanant de personnes ayant reçu votre agrément.

M. Hammond: C'est bien cela.

M. McCrossan: Envisagez-vous de demander à davantage de compagnies de fournir des certificats d'actuaire au cas où vous constateriez de trop faibles réserves, une fois que les agréments appropriés auront été faits?

M. Hammond: C'est une possibilité. Nous avons de toute façon l'intention de réexaminer l'application de la nouvelle loi à la fin 1987, les résultats de la révision de cette année déterminant la méthode adoptée l'année prochaine.

M. McCrossan: Ce sont les entreprises d'assurance responsabilité à long terme qui sont les plus touchées par les mesures fiscales concernant l'impôt sur le revenu. Le renforcement se constate-t-il surtout dans ce secteur ou est-il généralisé?

M. Hammond: Là encore, il est trop tôt pour que je puisse me prononcer. Je ne peux pas vraiment vous donner de réponse définitive à cet égard.

[Text]

Mr. McCrossan: Could I come back to the issue we were talking about a little earlier with respect to the banks. It was mentioned earlier that the banks' credit rating has been recently downgraded somewhat. But one thing that has occurred to me is since the strengthening of the reserves on sovereign loans and other loans to Third World countries, three of our banks have now increased dividends, I believe—the TD right on the day they strengthened the reserves, and two banks this quarter. Is that right?

The Chairman: The TD's credit is the highest of all the banks.

Mr. McCrossan: I understand that. But essentially, is it three out of the six that have increased dividends?

Ms Labarge: I do not know offhand the dates they have increased. Certainly I notice that two of them have increased this quarter.

Mr. McCrossan: The third was the TD last year.

Ms Labarge: Yes.

Mr. McCrossan: So two have this quarter. You mentioned the consultation was taking place internationally. My understanding of a more typical international pattern is indeed that dividends have been decreased to accommodate these loan write-offs, and indeed you were referring to the speculation about possible losses. Is there anything peculiar to the Canadian market that allows an increasing rate of dividend at a time when these reserves are being set up?

Ms Labarge: I would like to indicate I do not think in many cases there has been a decrease in dividends. There was considerable speculation, particularly about the American banks.

Mr. McCrossan: Right. Manufacturers Hanover, in particular.

Ms Labarge: That is right, whose dividend yield is 18%, and where a decision was definitely made not to cut dividends. There are many reasons for increasing dividends, and one is the yield in terms of the marketability of shares, for example. There are a number of items. Obviously the retention of capital and how much they can retain are factors taken into account. It has been rare.

I believe the National Bank several years ago did decrease dividends. I would have to have that confirmed, but it is in the pattern of North American and European banks. Dividends tend to be a fixed item and not a variable. It just happens to be the pattern of capital markets, and that is true of most companies. I do not think our banks are an exception on that one.

[Translation]

M. McCrossan: J'aimerais revenir à la question que nous avons abordée précédemment au sujet des banques. On a dit un peu plus tôt que la cote de solvabilité des banques avait récemment été quelque peu abaissée. Toutefois, il m'est apparu que depuis le renforcement des réserves au titre des prêts effectués aux pays souverains et aux divers pays du Tiers monde, trois de nos banques avaient augmenté leurs dividendes; Toronto Dominion, je crois, le jour même où les réserves ont été renforcées, et deux autres banques ce trimestre. Est-ce bien cela?

Le président: La cote de solvabilité de la Toronto Dominion est la plus élevée de toutes les banques.

M. McCrossan: Je sais bien. Mais, à la base, ce sont trois banques sur six qui ont augmenté leurs dividendes, n'est-ce pas?

Mme Labarge: Je ne sais pas exactement à quelle date elles les ont augmentés. Je suis sûr par contre que deux d'entre elles ont augmenté leurs dividendes ce trimestre.

M. McCrossan: La troisième est la Banque Toronto Dominion l'année dernière.

Mme Labarge: En effet.

M. McCrossan: Deux l'ont donc fait ce trimestre. Vous nous avez parlé des consultations qui avaient lieu au plan international. D'après ma connaissance du fonctionnement des finances internationales, il me paraît plutôt que les dividendes auraient dû être diminués pour tenir compte du fait que ces prêts ont été passés par pertes et profits et vous nous avez d'ailleurs parlé de spéculations au sujet des pertes éventuelles. Qu'a de particulier le marché canadien pour que l'on puisse augmenter les dividendes au moment même où l'on doit constituer ce genre de réserves?

Mme Labarge: J'aimerais préciser que bien souvent je ne pense pas que les dividendes aient diminué. On en a beaucoup parlé, particulièrement en ce qui concerne les banques des États-Unis.

M. McCrossan: En effet. Manufacturers Hanover, en particulier.

Mme Labarge: C'est bien cela. Les dividendes de cette banque rapportent 18 p. 100 et elle a décidé finalement de ne pas réduire ses dividendes. Il y a de nombreuses raisons d'augmenter les dividendes, l'une d'entre elles étant le rendement qui permet de vendre les actions sur le marché, par exemple. De nombreux facteurs interviennent. La préservation du capital et la quantité que l'on est en mesure de préserver sont des facteurs qui jouent eux aussi leur rôle. Cela a été rare.

Il me semble que la Banque nationale a dû diminuer ses dividendes il y a quelques années. Il faudrait que la chose soit confirmée, mais c'est conforme au mode de fonctionnement des banques de l'Amérique du Nord et d'Europe. Les dividendes ont tendance à être fixe et à ne pas fluctuer. Il semble tout simplement que ce soit là la façon dont opèrent les marchés financiers et cela vaut pour la plupart des sociétés. Je ne pense pas que nos banques fassent exception à la règle.

[Texte]

Mr. McCrossan: When you are in a period where you are paying particular attention to bank solvency margins as a result of this debt situation, would it be normal for banks to consult the superintendent's office in advance of a change in dividend policy?

Ms Labarge: No, it probably would not be. The only time I would imagine a discussion would go on is if we had raised concerns with the banks about their level of capital adequacy, and that has not been an issue with Canadian banks.

• 16.5

Mr. Warner: Some time ago, representatives of the property and casualty industry came before the committee and expressed grave concern about changes in the Income Tax Act and how these changes would affect their solvency. Last week we mentioned this to you.

Have these companies or their representatives, in your dealings with them, mentioned directly to you this same concern?

Mr. Hammond: They certainly did mention to us, last fall, their concerns about some of the proposals for changing the taxation system with respect to property and casualty insurance companies. But, as I indicated at the last meeting of this committee, my understanding is that there have been extensive discussions between the people in tax policy and representatives of the property and casualty insurance industry and that an accommodation has been reached. I cannot say, as far as I know, that the property and casualty insurance industry is completely happy, but certainly they have not been knocking on our door in the last few weeks saying that they think a disaster is pending.

Mr. Warner: I understand that there have been discussions, and last night Mr. Dodge indicated that he thought the discussions were going well. I suggested that perhaps you should be involved in analysing the situation and seeing that they actually are going well. I have had... it is not an official indication, but some member companies are still concerned.

Perhaps you will be in a better situation to analyse this than the policy people will be. I hope that negotiations have been successful and I hope that there are certain accounting procedures that will successfully accommodate this change. Perhaps the tax policy concept you have mentioned is legitimate and fine, but if it does affect the solvency of any company inadvertently then I would hope that your department would express this concern to the Minister or the policy people and you might see as adequate further changes in accounting procedure. I believe this would be your responsibility and if you saw a flaw in the accounting or in the procedures, then you would bring this to the Minister's attention and perhaps avoid something that could be a problem.

[Traduction]

M. McCrossan: Dans une période comme la nôtre où l'on accorde une attention toute particulière aux marges de solvabilité des banques en raison des dettes impayées, serait-il normal que les banques consultent à l'avance le bureau du surintendant si elles désirent modifier leur politique de dividendes?

Mme Labarge: Non, il est probable que non. Je ne peux entrevoir la possibilité d'une discussion de ce genre que si l'on s'inquiétait au sujet des réserves en capitaux des banques et la question ne s'est pas posée pour les banques canadiennes.

M. Warner: Il y a quelque temps, les représentants de l'industrie des assurances tous risques se sont dits fort inquiets des modifications apportées à la Loi de l'impôt sur le revenu et des conséquences qu'auraient ces modifications sur leur solvabilité. Nous vous en avons parlé la semaine dernière.

Lors des entretiens qu'ils ont eus avec vous, ces compagnies ou leurs représentants, vous en ont-ils fait part?

M. Hammond: Ils nous ont bien entendu fait part l'automne dernier de leurs préoccupations au sujet d'un certain nombre de modifications fiscales touchant les compagnies d'assurances tous risques. Toutefois, comme je l'ai indiqué lors de la dernière réunion de ce comité, j'ai l'impression qu'à la suite des nombreux entretiens qui ont eu lieu entre les responsables du fisc et les représentants de cette industrie, l'on a réussi à trouver un compromis. Je ne dis pas que les compagnies d'assurances tous risques sont totalement satisfaites, mais il n'en reste pas moins qu'on ne les a pas vus ces dernières semaines cogner à notre porte en annonçant l'imminence d'un désastre.

M. Warner: Je sais qu'il y a eu des entretiens et hier soir M. Dodge a fait savoir qu'il estimait que les négociations étaient en bonne voie. J'ai émis le souhait que vous puissiez analyser la situation et veiller à ce que tout se passe bien. J'ai eu... ce n'est pas officiel, mais certaines compagnies membres restent inquiètes.

Vous serez peut-être mieux en mesure d'analyser cette situation que les gens du service politique. J'espère que les négociations ont abouti et que l'on aura mis au point des méthodes comptables permettant de s'adapter avec succès à ce changement. Il est possible que le principe de la politique fiscale que vous avez exposé soit légitime et approprié, mais si par ricochet il remet en cause la solvabilité des entreprises, j'espère que votre ministère saura faire part de ses préoccupations au ministre ou au responsable de l'élaboration des politiques pour s'assurer que l'on modifiera de manière appropriée les méthodes comptables. Je considère que cette responsabilité vous appartient et qu'à partir du moment où vous découvrez une faille au niveau de la comptabilité ou des méthodes, il

[Text]

This issue does not seem to be entirely clear right now, but in the next couple of months perhaps the situation will become clearer.

Mr. Hammond: If we did become aware of the fact that the taxation system might cause a company to become insolvent, then indeed it would be our responsibility to raise that with the Minister, and we would do that.

Mr. Warner: Thank you very much.

Mr. McCrossan: To follow that up, the new tax proposals will require reserves to be discounted for interest. If an actuarial certificate is required and at the same time the actuary requires a much higher level of reserves for the first time because there is an actuarial certificate, is that higher level of reserves accepted for tax purposes?

Mr. Hammond: I cannot really comment on that. I have not been party to the most recent discussions. I am only aware of the fact that there seems to have been some accommodation. So I cannot really respond to your question.

Mr. McCrossan: May I ask a similar question with respect to AIDS? I have been reading, over the last year since you were here, some reports by Mr. Black of the CLHIA to the effect that mortality is going to have to be strengthened.

Is your office playing any role at all in suggesting new standards of mortality or what appropriate action might be taken to set up reserves for the AIDS risk?

• 1700

Mr. Hammond: The simple answer to that question, Mr. Chairman, is not yet, but we are monitoring the situation very carefully. We are looking at what is happening in the United States, what is happening in the United Kingdom. One of the things we will be looking at this year, in reviewing the reports from the valuation actuaries, is whether there is any special comment or any special provision relating to mortality that might be caused by AIDS.

When we visit the companies, we are starting to take a new approach, which is in response to Mr. Mackenzie's initiative to do an across-the-system look. When our examiners visit a company, they will be taking with them some people from our actuarial staff. We will be sitting down and discussing with the actuary of the company the AIDS issue and trying to decide what if any initiative the office should be taking.

The Chairman: Have any of the companies taken any provisions themselves?

[Translation]

vous incombe de la signaler au ministre afin d'éviter ce qui pourrait constituer un problème.

Les choses ne sont pas encore très nettes pour l'instant, mais dans un ou deux mois il est possible que la situation devienne plus claire.

M. Hammond: Si nous constatons que les mécanismes d'imposition sont susceptibles de rendre insolvable une compagnie, nous aurions bien entendu le devoir de porter ce fait à la connaissance du ministre, et nous ne manquerions pas de le faire.

M. Warner: Je vous remercie.

M. McCrossan: Pour continuer dans la même veine les nouvelles propositions fiscales exigeront que l'on ne tienne pas compte des réserves au titre des intérêts. À partir du moment où l'on exige un certificat d'actuaire et où l'actuaire demande dans un premier temps que l'on relève le niveau des réserves pour fournir le certificat, ce niveau supérieur de réserves sera-t-il accepté à des fins fiscales?

M. Hammond: Je ne peux pas vraiment faire de commentaires sur ce point. Je n'ai pas participé aux dernières discussions. Je sais seulement qu'il semble que certains compromis ont été faits. Je ne peux donc pas vraiment répondre à votre question.

M. McCrossan: J'ai une question semblable à vous poser au sujet du SIDA. J'ai lu, au cours de l'année qui s'est écoulée depuis votre dernière visite, dans un rapport de M. Black de l'ACCAP, qu'il convenait d'augmenter les provisions pour les risques de mortalité.

Votre bureau joue-t-il un rôle quelconque en établissant de nouveaux barèmes de mortalité ou en proposant les mesures susceptibles d'être prises en ce qui a trait à la constitution de réserves au titre des risques posés par le SIDA?

M. Hammond: La réponse, monsieur le président, est pas encore, mais nous suivons la situation de près. Nous regardons ce qui se passe aux États-Unis, au Royaume-Uni. L'une des choses que nous allons regarder cette année dans les rapports des actuaires chargés des évaluations, c'est un commentaire particulier ou une provision spéciale touchant la mortalité susceptible d'être causée par le SIDA.

Lorsque nous rendons visite aux compagnies, nous inaugurons une nouvelle approche pour répondre à la décision prise par M. Mackenzie d'examiner l'ensemble du système. Lorsqu'ils vont rendre visite à une compagnie, nos inspecteurs seront accompagnés des membres de notre personnel d'actuaires. Ils rencontreront l'actuaire de la compagnie et discuteront avec celui-ci du problème du SIDA pour chercher à savoir si le Bureau doit prendre une initiative quelconque.

Le président: Les compagnies elles-mêmes ont-elles déjà pris certaines dispositions?

[Texte]

Mr. Hammond: I am not aware of any specific provisions, but as I say, we will be looking for that in our review of the valuation actuaries' reports this year, which we are just now receiving.

Mr. McCrossan: Ms Menke will recall that last May or June we made a provision in the CDIC Act for premiums to be assessed on different levels when there was a concentration of risk for various factors. Have you recommended to the CDIC that differential premiums be set for any institution, or indeed, to the best of your knowledge, have differential premiums been set with respect to any institution currently insured by the CDIC?

Mr. Hammond: I have not made any such recommendations. I am no longer responsible for deposit-taking institutions. I am not aware of whether any such recommendations have been made, and I am not aware that anybody is being charged a differential premium.

Mr. McCrossan: Would it be appropriate to ask the CDIC?

Mr. Hammond: I would say yes.

Mr. McCrossan: So nobody in the superintendent's office is charged with making such a recommendation. Is that correct?

Mr. Hammond: Indeed, the office does carry out examinations of the federal companies and certain provincial companies on behalf of the CDIC. I have just said that I no longer do that, and I have not done it since the new office was created. I am not aware whether any such recommendation has been made. That recommendation would not come from me.

Mr. McCrossan: But it would come from inside.

Mr. Hammond: It would come from Mr. Mackenzie or Mr. MacPherson.

Mr. Dorin: I was going to ask a question with regard to a deposit-taking institution. However, I will not ask it.

The Chairman: Some companies on page 17 of your Part III are still in a recovering situation. It indicates that you expect to recover \$11.6 million from the liquidation of Pitts, Cardinal, Northumberland, and so on. When are you going to be able to get off this problem of these outstanding companies?

Mr. Hammond: Unfortunately, the liquidation of an insurance company is a very long-term project. In the case of Pitts, for example, which was our first, the liquidator has now paid 100¢ on the dollar to the policyholders, but there are still some claims that remain with respect to the claims that have been settled. There are still a few claims that are before the courts and they have not been settled.

The Chairman: I see.

[Traduction]

M. Hammond: Je ne sais pas si des dispositions précises ont été prises mais, comme je viens de le dire, nous chercherons à savoir si certaines figurent déjà dans les rapports d'évaluation des actuaires que nous allons examiner et que nous sommes en train de recevoir.

M. McCrossan: M^{me} Menke se souviendra qu'en mai ou juin dernier, nous avons prévu dans la Loi sur la SADC que les primes soient évaluées à différents niveaux lorsqu'il y avait concentration du risque au titre de différents facteurs. Avez-vous recommandé à la SADC de fixer des primes différentes pour un établissement en particulier ou, d'après ce que vous avez pu savoir, des primes différentes ont-elles été fixées au sujet d'un établissement actuellement assuré par la SADC?

M. Hammond: Je n'ai pas fait aucune recommandation de ce genre. Je ne suis plus responsable des établissements de dépôts. Je ne sais pas si une telle recommandation a déjà été faite et si un établissement en particulier se voit appliquer des primes différentes.

M. McCrossan: Ne serait-il pas bon de poser la question à la SADC?

M. Hammond: Oui, en effet.

M. McCrossan: Donc, personne au bureau du surintendant n'est chargé de faire une recommandation de ce type. C'est bien cela?

M. Hammond: En fait, le bureau inspecte les compagnies fédérales et certaines compagnies provinciales pour le compte de la SADC. Je viens de vous dire que c'est une chose que je ne fais plus et je ne l'ai plus faite depuis la création du nouveau bureau. Je ne sais pas si cette recommandation a été faite. Elle ne viendrait pas de moi.

M. McCrossan: Mais elle viendrait des services internes?

M. Hammond: Elle viendrait de M. Mackenzie ou de M. MacPherson.

M. Dorin: J'allais poser une question au sujet des institutions de dépôts, mais je m'abstiendrai de le faire.

Le président: Certaines compagnies qui figurent à la page 17 de la partie III de votre document sont encore en recouvrement. On voit que vous espérez récupérer 11,6 millions de dollars de la liquidation de Pitts, Cardinal, Northumberland, etc. Quand allez-vous être en mesure de vous débarrasser du problème causé par ces compagnies en instance de liquidation?

M. Hammond: La liquidation d'une compagnie d'assurance est malheureusement un projet à très long terme. Dans le cas de Pitts, par exemple, qui a été la première sur notre liste, le syndic a maintenant remboursé intégralement les détenteurs de police d'assurance, mais il reste encore certaines réclamations à régler. Il reste quelques réclamations litigieuses devant les tribunaux qui n'ont pas encore été réglées.

Le président: Je comprends.

[Text]

Mr. Hammond: In essence, the claimants who have settled have received 100¢ on the dollar and we are now starting to work on paying something to the other creditors.

With respect to Northumberland, which is our major company in liquidation, there have been a number of very tricky legal issues which have had to be decided. For example, the Supreme Court of Ontario indicated in a decision that the liquidator must accept contingent claims. The liquidator in response to that court decision put out a call for claims and received notice of some \$8 billion of contingent claims.

• 1705

The Chairman: Did they not receive certain claims in connection with Connaught Laboratories? Is that not one of the major claimant problems?

Mr. Hammond: That is one of the major claimants, yes.

The Chairman: It was in connection with certain vaccines produced and whether there would be claims on those vaccines.

Mr. Hammond: That was one of the policyholders, that is correct.

Many of these contingent claims exceed the policy limits, so the liquidator now has the responsibility to sort out with the court how we are going to deal with these contingent claims. Many of them exceed the policy limits, and even if the company were continuing and those claims did arise—and it is by no means sure those claims are going to arise; these are just contingent claims—we have to deal with that issue. That takes time to deal with.

There are number of things like this. A number of those Northumberland claims are claims that will take time to settle. Unfortunately it is a lengthy process. As the members of this committee well know, the objective we have to achieve in the future is to avoid these liquidations, because once you start down that road it is a very long process in the case of a property and casualty company, particularly one that has done long-term business or long-tail business.

The Chairman: How do you propose to handle a situation where an insurance company goes under if you do not liquidate it?

Mr. Hammond: Certainly you do have to liquidate it. In fact, as I indicated, we are making—

The Chairman: There is another way. You could make it a Crown corporation and we could have another loser.

[Translation]

M. Hammond: En substance, les bénéficiaires de police d'assurance dont le dossier a été réglé ont reçu l'intégralité de leur argent et nous sommes désormais en train de nous occuper du paiement des autres créanciers.

Pour ce qui est de Northumberland, notre principale compagnie en cours de liquidation, un certain nombre de problèmes juridiques très complexes ont dû être tranchés. Ainsi, par exemple, la Cour suprême de l'Ontario a indiqué dans son jugement que le syndic devait accepter les demandes de remboursement exigibles. À la suite de cette décision judiciaire, le syndic a lancé un appel pour connaître les demandes et s'est vu notifié des demandes de remboursement éventuellement exigibles portant sur 8 milliards de dollars.

Le président: N'ont-ils pas reçu certaines demandes se rapportant aux laboratoires Connaught? N'est-ce pas là l'un des principaux problèmes concernant les demandes de remboursement?

M. Hammond: Oui, c'est l'un des principaux photogénistes.

Le président: C'était au sujet de certains vaccins produits par ce laboratoire qui allaient peut-être donner lieu à des demandes d'indemnisation.

M. Hammond: C'est bien cela, c'était l'un des titulaires de police d'assurances.

Nombre de ces demandes de remboursement exigible dépassent les limites des polices et le syndic doit donc essayer de savoir avec les tribunaux ce que l'on va pouvoir en faire. Nombre de demandes de remboursement exigible dépassent le plafond et même si la compagnie avait poursuivi ses activités et si les demandes s'étaient matérialisées, ce qui est loin d'être certain puisqu'il s'agit de demandes éventuelles, il aurait fallu régler la question. Il faut beaucoup de temps pour régler ce genre de question.

Il y a de nombreux problèmes de ce genre. Nombre de demandes d'indemnisation de la Northumberland vont prendre du temps avant d'être réglées. Le mécanisme est lent, malheureusement. Comme les membres du comité le savent bien, notre objectif est de parvenir à éviter à l'avenir ce genre de liquidation parce qu'une fois que l'on a mis le doigt dans l'engrenage, on n'en finit jamais dans le cas d'une compagnie d'assurance tous risques, surtout lorsqu'il s'agit d'une entreprise ayant des activités à long terme.

Le président: Comment allez-vous alors faire face à la situation à partir du moment où une compagnie d'assurance fait faillite, si vous ne la liquidez pas?

M. Hammond: Il faut bien sûr la liquider. En fait, comme je l'ai indiqué, nous faisons. . .

Le président: Il y a une autre solution. Vous pourriez la transformer en société d'État et nous aurions ainsi un nouveau canard boiteux.

[Texte]

Mr. Hammond: We certainly have been making progress in the liquidations.

Mr. Dorin: Maybe we have to have an actuarial evaluation that shows it is insolvent.

The Chairman: Like our pension plans.

Mr. Hammond: Progress is being made in the liquidations, but it is not always as quick as one would like, because of some of the tricky legal issues.

The Chairman: Would you foresee being able to wind up some of these liquidations? You have half a dozen of them here.

Mr. Hammond: We could see most of them being wound up within the next five years or so, but I would envisage that Northumberland would go beyond five years.

The Chairman: Are you not just spinning your wheels and spending money on fees and liquidators and lawyers and officers and so on?

Mr. Hammond: No, I do not think so, Mr. Chairman, because as I indicated, for example, with Pitts we have now paid 100¢ on the dollar to the policyholders. So that is an achievement. They have had to wait a period of time, but that has been achieved. In some of the other cases we have made significant payments, too.

It does take longer than one would like, but the liquidator is acting as expeditiously as possible. An industry advisory committee has been set up to provide us with advice. We are accepting that advice and certainly trying to get on with it.

Mr. Dorin: Given that you have paid out 100¢ on the dollar, does that not call into question whether it was ever insolvent to begin with and whether it should have been liquidated?

Mr. Hammond: It might in some people's minds. But you have to remember—

Mr. McCrossan: It is as if I promised to pay you 100¢ ten years from now on every dollar I earn today.

Mr. Hammond: That is right. You have to take into account the time value of money. Some of these people have had to wait for their money. Besides, the other thing we must not forget is that if the company had been ongoing, it would have had to meet the expenses involved in settling these claims; and these expenses have been paid by the industry. The administrative expenses involved in carrying out the liquidation have been paid by the industry. If it were an ongoing company, the company would have to meet those expenses from its own resources. That is the whole objective of that provision in the legislation: to improve the pay-out to the policyholders.

[Traduction]

M. Hammond: Il est certain que nous avons réalisé des progrès en ce qui a trait aux liquidations.

M. Dorin: Il serait peut-être bon que nous puissions disposer d'une évaluation actuarielle prouvant son insolvabilité.

Le président: Comme pour nos régimes de pensions.

M. Hammond: Nous faisons des progrès au sujet des liquidations, mais ils ne sont pas toujours aussi rapides que nous le souhaiterions en raison des complications juridiques.

Le président: Envisagez-vous de pouvoir mettre fin à une partie de ces liquidations? Vous en avez une demi-douzaine en cours.

M. Hammond: Nous prévoyons que la plupart des cas seront réglés dans les cinq prochaines années, mais le délai sera plus long à mon avis pour la Northumberland.

Le président: N'êtes-vous pas tout simplement en train de faire du sur place et de gaspiller votre argent en honoraires de syndic, d'avocats, de dirigeants d'entreprises, etc.?

M. Hammond: Non, je ne le pense pas, monsieur le président, car, comme je vous l'ai dit, Pitts a pu par exemple rembourser la totalité de l'argent aux détenteurs de polices d'assurance. C'est une réussite. Ils ont dû attendre un certain temps, mais nous y sommes parvenus. Dans un certain nombre d'autres cas, nous avons par ailleurs réussi à faire des versements non négligeables.

C'est plus long qu'on le voudrait, mais le syndic fait aussi vite qu'il le peut. Un comité consultatif de l'industrie a été mis sur pied afin d'apporter des conseils. Nous acceptons ces conseils et nous nous efforçons bien sûr de les mettre en pratique.

M. Dorin: Étant donné que vous avez réussi à rembourser l'intégralité des sommes dues, ne peut-on pas se demander si cette compagnie était vraiment insolvable et s'il était utile au départ de la mettre en liquidation?

M. Hammond: C'est ce qui peut traverser l'esprit de certaines gens. Mais il ne faut pas oublier. . .

M. McCrossan: C'est comme si je promettais de rembourser l'intégralité de chaque dollar gagné dans dix ans.

M. Hammond: C'est vrai. Il faut tenir compte de l'augmentation de la valeur de l'argent à mesure que le temps passe. Une partie de ces gens ont dû attendre pour toucher leur argent. Il faut aussi bien voir que si la compagnie avait poursuivi ses activités, il lui aurait fallu défrayer le règlement de ces demandes d'indemnisation alors qu'il a été défrayé par l'industrie. Les frais administratifs de la liquidation ont été payés par l'industrie. Si elle était restée en activité, la compagnie aurait dû payer ces frais en prélevant l'argent sur ses fonds propres. C'est là le véritable objectif de cette disposition de la loi: augmenter les sommes qui sont remboursées aux détenteurs de polices d'assurance.

[Text]

The Chairman: We advocated in our November 6, 1985, report some type of an insurance-paid-in-advance fund rather than the paid-in-arrears type of system you presently are operating under. There was some discussion at that time amongst the companies, and you were trying to work out something on a voluntary basis. What has happened? What is going on? Are we still in the same position as we were then?

• 1710

Mr. Hammond: Mr. Chairman, there has indeed been some progress. I think the decision made by the provincial governments and the federal government is that the property and casualty insurance industry should be given the opportunity to take the initiative to establish an industry-financed and industry-run plan. The latest development is that the plan should be in operation by the end of this year.

The Chairman: Will it be as sound as what the security dealers have?

Mr. Hammond: Mr. Chairman, it is going to be a post-assessment fund.

The Chairman: In other words, if we have any real trouble, we will have to come in and bail them all out and there will not be any money there to collect.

Mr. Hammond: There will be a provision for assessing all the companies registered to carry on property and casualty insurance and there will be an obligation for those companies to pay. I am sure if the industry-run and financed scheme does not work, the governments will take the initiative to establish their own plan. Based on the explanations we have received to date, we think the industry plan should be able to operate effectively.

Mr. McCrossan: Will it be on the same basis as CDIC where the government will put up the money and recoup it through assessments?

Mr. Hammond: No, no. As soon as there is an indication of a problem, there will be an immediate assessment on the industry by the compensation corporation and the corporation will use those funds to pay the claim.

Mr. McCrossan: I wonder how this will differ. . . was it Ohio or Indiana that had some problems with Baldwin-United Corporation? Because of the size of the failure, the assessment would have threatened the viability of the remaining companies. Having more or less endorsed the plan, the state had to step in.

[Translation]

Le président: Nous avons préconisé dans notre rapport du 6 novembre 1985 l'instauration d'un certain type de caisse d'indemnisation à l'avance en matière d'assurances, de préférence au type de caisse d'indemnisation *a posteriori* que vous avez à l'heure actuelle. Des discussions ont eu lieu à l'époque entre les différentes compagnies et vous avez cherché à mettre sur pied un système volontaire. Que s'est-il passé? Qu'en est-il aujourd'hui? En est-on toujours au même point?

M. Hammond: Monsieur le président, il y a eu en fait quelques progrès. Je pense que la décision qu'ont prise les provinces et le gouvernement fédéral, c'est qu'il convient de donner à l'industrie de l'assurance contre les dommages causés aux biens et les accidents la possibilité de prendre l'initiative de mettre sur pied un régime financé et administré par l'industrie. Aux dernières nouvelles, ce régime devait être en place à la fin de l'année.

Le président: Sera-t-il établi sur des bases aussi solides que celui des courtiers en valeur mobilière?

M. Hammond: Monsieur le président, ce sera un fonds imposant des quotes-parts *a posteriori*.

Le président: En d'autres termes, si nous sommes véritablement en difficulté, il faudra que nous allions leur sauver la mise et il ne nous restera plus d'argent à percevoir.

M. Hammond: Une disposition permettra de procéder à l'évaluation de toutes les compagnies inscrites dans le domaine de l'assurance contre les dommages causés aux biens et les accidents et ces compagnies seront tenues de payer. Je suis sûr que si le régime administré et financé par l'industrie ne donne pas satisfaction, les gouvernements vont intervenir et mettre sur pied leur propre régime. Sur la foi des renseignements qui nous ont été donnés jusqu'à présent, nous pensons que le régime mis sur pied par l'industrie devrait bien fonctionner.

M. McCrossan: Va-t-on opérer sur les mêmes bases que la SADC, le gouvernement mettant l'argent sur la table et le récupérant en imposant des quotes-parts?

M. Hammond: Non, absolument pas. Dès qu'une difficulté apparaîtra, la société d'indemnisation demandera immédiatement à l'industrie de payer sa quote-part et elle se servira des fonds ainsi recueillis pour payer la demande d'indemnisation.

M. McCrossan: Je me demande quelle sera la différence avec. . . N'était-ce pas en Ohio ou dans l'Indiana qu'il y a eu des problèmes avec la société Baldwin-United? En raison de la dimension de la faillite, il était impossible de faire payer une quote-part aux compagnies restantes sans risquer de les rendre insolvables. L'Etat, qui avait plus ou moins entériné le régime, a dû intervenir.

[Texte]

Mr. Hammond: Our objective at OSFI is to catch these things before the situation is so serious the assessment would wipe out the industry.

Mr. McCrossan: As I recall, there was a \$1 billion shortfall in the case of Baldwin-United Corporation.

Mr. Hammond: It was very large.

The Chairman: In other words, we have a post-assessment that has not yet gone into effect. I suppose the same applies to the life insurance industry. Again, there is a post-assessment plan with no money in the till. We are depending on everybody and hoping that none of the big fellows go broke.

Mr. Hammond: Mr. Chairman, that is the situation and both of these plans are supposed to be in operation by the end of this year.

The Chairman: The plan the security dealers have is exactly that kind of a plan. The \$18 million will put them in bankruptcy.

Mr. Hammond: Mr. Chairman, for example, the annual assessment that can be made with respect to the property and casualty insurance industry will be \$60 million a year. It is planned and the industry is aware of that.

Mr. McCrossan: That is a maximum assessment.

Mr. Hammond: Per year.

Mr. McCrossan: What happens if the claims are higher, if the defaults are higher than \$60 million? Is there less of a guarantee?

Mr. Hammond: As the plan is conceived, if the assessments cannot fund the guaranteed benefits over a period of years, the benefits will be cut. Barring some sort of disaster, our assessment is that the \$60 million should be sufficient to meet the claims requiring to be paid.

Mr. McCrossan: Did you discuss with the industry establishing any sort of starting contingency fund with an initial assessment in either the life or the P and C industry?

Mr. Hammond: It has been discussed. The industry is not enthusiastic about the possibility. I think the assessment of the people involved in these discussions is that it is important to get a plan established. We think a plan along the lines that has been discussed is feasible. Let us get it established. If it does not work, we will fix it from there.

[Traduction]

M. Hammond: L'objectif du Bureau est d'intervenir avant que la situation soit devenue tellement grave que l'imposition d'une quote-part entraîne la ruine de l'industrie.

M. McCrossan: Si je me souviens bien, le déficit était de 1 milliard de dollars dans le cas de la société Baldwin-United.

M. Hammond: C'était une somme énorme.

Le président: En d'autres termes, nous avons un système de quotes-parts *a posteriori* qui n'a pas encore été mis en place. J'imagine qu'il en est de même dans le secteur de l'assurance-vie. Là encore, nous avons un régime imposant le paiement de quotes-parts *a posteriori* sans qu'il y ait d'argent dans le tiroir-caisse. Nous faisons confiance à la collectivité en espérant que personne, parmi les grosses compagnies, ne va faire faillite.

M. Hammond: Voilà quelle est la situation, monsieur le président, et ces deux régimes devraient être en place à la fin de l'année.

Le président: C'est exactement le genre de régime qu'ont les courtiers en valeur mobilière. Les 18 millions de dollars vont les mettre en faillite.

M. Hammond: Pour vous donner un exemple, monsieur le président, la quote-part qu'il pourra être demandé de verser au cours d'une année donnée à l'industrie de l'assurance contre les dommages causés aux biens et les accidents sera de 60 millions de dollars par an. C'est à cela que se montent les prévisions et l'industrie ne l'ignore pas.

M. McCrossan: C'est un maximum.

M. Hammond: Par an.

M. McCrossan: Que se passe-t-il si les demandes d'indemnisation sont plus élevées, si les cessations de paiement s'élèvent à plus de 60 millions de dollars? La garantie se limite-t-elle à cela?

M. Hammond: Tel que le régime est conçu, si les quotes-parts ne permettent pas de garantir les prestations au cours d'un certain nombre d'années, les prestations diminueront. À moins d'une catastrophe, nous estimons que ce montant de 60 millions de dollars devrait suffire à payer les demandes d'indemnisation qui seront présentées.

M. McCrossan: Avez-vous envisagé avec les responsables de l'industrie la création d'un certain fonds d'urgence alimenté au départ par l'imposition d'une certaine quote-part aux entreprises oeuvrant dans l'assurance-vie ou dans l'assurance contre les dommages causés aux biens et les accidents?

M. Hammond: Nous en avons discuté. L'industrie n'est pas très chaude face à cette éventualité. À mon avis, les gens qui ont participé à ces discussions considèrent qu'il est important de mettre sur pied un régime. Nous pensons qu'un régime ayant à peu près les caractéristiques que je viens d'évoquer a des chances de fonctionner. Commençons par le mettre sur pied. S'il ne donne pas

[Text]

The Chairman: Are there any other questions?

I am going to say thank you very much for coming. It was an excellent chat. We enjoy having you. We may have you back, maybe sooner than you think.

Mr. Hammond: Thank you, Mr. Chairman.

Mr. H. Bert Waslander (Director of Research): Mr. Chairman, a paper has been distributed to the members this afternoon. If you have a chance to look at it before the meeting, we will see if we can make some progress tonight. It was distributed to your offices.

• 1715

The Chairman: This meeting is adjourned until 8 p.m. in Room 112-N.

[Translation]

satisfaction, nous procéderons aux modifications nécessaires.

Le président: Y a-t-il d'autres questions?

Merci d'être venus nous rencontrer. C'était un excellent entretien. C'est un plaisir de discuter avec vous et nous vous reverrons certainement, peut-être plus tôt que vous le pensez.

M. Hammond: Merci, monsieur le président.

M. H. Bert Waslander (directeur de la recherche): Monsieur le président, un document a été distribué aux membres du Comité cet après-midi. Si vous avez la possibilité de le consulter avant la réunion, nous pourrions peut-être faire quelques progrès ce soir. Ce document vous a été distribué à votre bureau.

Le président: La séance est levée et reprendra à 20 heures dans la salle 112-N.



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WITNESSES

From the Office of the Superintendent of Financial Institutions:

R.M. Hammond, Deputy Superintendent, Insurance and Pensions Sector;

R.M. Emond, Executive Director, Management Services Sector;

Suzanne Labarge, Deputy Superintendent, Regulatory Policy, Planning and Resources Sector;

Walter Riese, Chief Actuary.

TÉMOINS

Du bureau du Surintendant des institutions financières:

R.M. Hammond, surintendant adjoint, Secteur de l'assurance et des régimes de pensions;

R.M. Emond, directeur exécutif, Secteur des services de gestion;

Suzanne Labarge, surintendant adjoint, Secteur de la politique de réglementation, de la planification et des ressources;

Walter Riese, actuaire en chef.

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